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Overview of economic and social conditions in Africa, 2013-2014

Summary

Africa's growth slowed from 5.4 per cent in 2012 to an estimated 4.0 per cent in 2013, a rate that is still almost twice as high as the global average but slightly lower than the average for developing countries. Export performance continued to improve in absolute terms, as it has done since 2011, owing to a rise in the export of commodities and the diversification of trade partners, although a low degree of export-product diversification and a high dependence on primary commodities are still major constraints on Africa's external trade. Intra-African trade remains low, largely because of high trading costs that are exacerbated by inefficiencies in customs and administrative procedures.

Despite improvements in exports and a growth performance that is still fairly strong, Africa's financing gap remains large. The global economic slowdown and a more stringent budgetary consolidation in many donor countries are expected to affect official development assistance to the continent. Africa's economic transformation thus has to rely increasingly on domestic sources of financing and African countries need to develop innovative approaches to development financing from both internal and external sources.

Africa's medium-term growth prospects are strong and are bolstered by relatively high commodity prices, increasing domestic demand, easing infrastructural constraints, ever-tighter trade and investment ties with emerging economies and improving global economic and regional business environments. That said, the continent's medium-term growth outlook still faces several risks, including unexpected adverse developments in the global economy, external shocks owing to changes in weather conditions, and political instability and civil unrest in some countries.

* E/2014/1/Rev.1, annex II.

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To translate rapid economic growth into sustained and inclusive development, Africa must follow through on development strategies that foster economic diversification, create jobs, reduce inequality and poverty and boost access to basic services.

I. Developments in the world economy and implications for Africa

1. Global economic growth dropped to 2.1 per cent in 2013 but is projected to rebound to 3.0 per cent in 2014 and 3.3 per cent in 2015 owing to increased economic activity in the United States of America and the euro area, as well as to the stabilization of growth in most emerging economies, notably China.[1]

2. The European Union's economy contracted by 0.1 per cent in 2013 but is forecast to grow by 1.4 per cent in 2014 owing to increased exports and business confidence. Economic growth also decelerated in the United States, to 1.6 per cent in 2013, largely because of fiscal tightening and spending cuts (sequestration), political brinksmanship on the federal budget, reduced business and entrepreneurial investment and the slow recovery of the labour market. The world's largest economy is projected to grow at a rate of 2.5 per cent in 2014, underpinned by a rebound in private consumption, a recovering real estate market, supportive monetary conditions and easing fiscal consolidation.

3. The economy of Japan grew at a rate of 1.9 per cent in 2013 as a result of fiscal stimulus packages geared at improving public infrastructure and quantitative and qualitative monetary easing, but growth is projected to decline to 1.5 per cent in 2014 with the introduction of a consumption tax and the unwinding of stimulus packages.

4. Expansion in East and South Asia moderated to 5.6 per cent in 2013, mainly owing to a decline in exports induced by a marginal slowdown in China to 7.7 per cent that is expected to continue in 2014, to 7.5 per cent (despite the recent pickup in export growth and industrial production). In India, growth contracted to 4.8 per cent in 2013 owing to a reversal in capital outflows and exchange rate depreciation, but is projected to grow again, at a rate of 5.3 per cent, in 2014, in response to increased investment and Government-backed structural reforms.

5. Growth in Western Asia slipped a little, from 3.9 per cent in 2012 to 3.6 per cent in 2013, as political instability and social unrest, notably in Iraq, Lebanon and the Syrian Arab Republic, weighed heavily. Economies in Latin America and the Caribbean grew by 2.6 per cent in 2013, reflecting faltering external demand, low commodity prices and weakening domestic conditions.

6. The global unemployment rate was estimated at 6.0 per cent in 2013 and the number of unemployed is set to rise from 202 million in 2013 to 205 million in 2014, as subdued private capital flows and fiscal austerity continue to restrict investments and job creation.[2] The global rate of youth unemployment remains elevated and is projected to stagnate at around 12.8 per cent until 2016, as the rebound in global growth will not be sufficient to lift depressed labour markets.[3]

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[1] The analysis in paragraphs 1-6 is based on *World Economic Situation and Prospects 2014* (United Nations publication, Sales No. E.14.II.C.2).

[2] International Labour Organization, *Global Employment Trends 2013: Recovering from a Second Jobs Dip* (Geneva, 2013).

[3] However, according to the Department of Economic and Social Affairs, the advanced estimate for the gross domestic product of the United States shows an annualized growth of 3.2 per cent for the fourth quarter of 2013, higher than the initial estimate, which might lead to a relatively higher annual growth rate and estimate for both 2013 and 2014.

7. According to the Department of Social and Economic Affairs, the global inflation rate was 2.5 per cent in 2013, down from 2.9 per cent in 2012, owing mainly to large output gaps in most economies, softening global commodity prices and insipid demand from key emerging markets. In 2014, that rate is projected to increase to 2.7 per cent, in line with the expected rebound in economic activity, although prudent monetary and fiscal policies in most countries are expected to keep it in check.

8. The International Monetary Fund index for all commodity prices was volatile in 2013 and reached a high point for the year of 191 in February, before steadily declining to 184 in September, owing to weak global demand and the deceleration of economic activity in emerging and developed economies. Global commodity prices are expected to change little in 2014 and to remain largely unaffected by growth, although supply constraints may exert some upward pressure.

9. In 2013, global exports grew at a rate of only 2.3 per cent, down from 3.1 per cent in 2012, as import demand from major developed countries contracted sharply. Globally, inflows of foreign direct investment stabilized in 2013 at around 2.3 per cent of the world gross domestic product (GDP) and are expected to rise to 2.4 per cent in 2014.

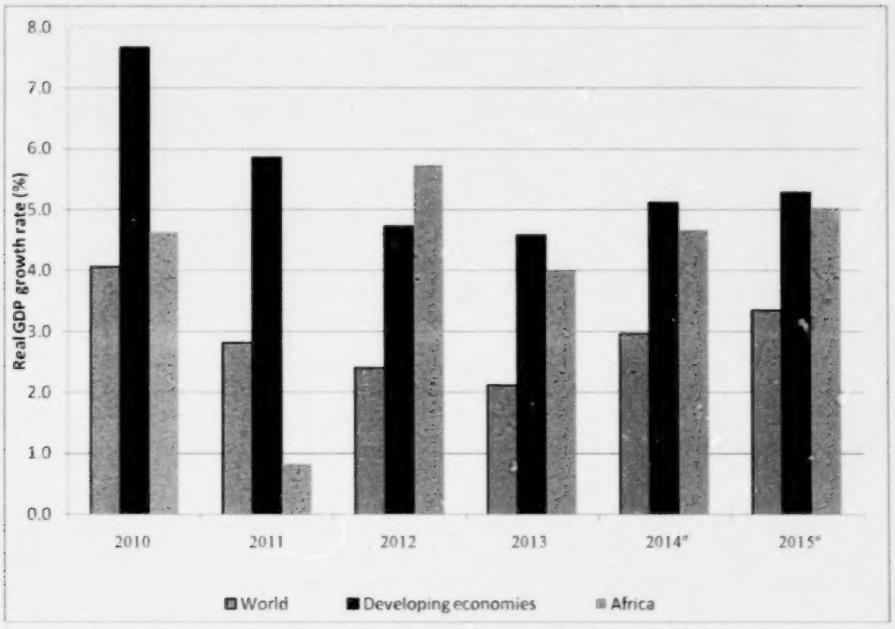
10. Key risks to the global economy include continued fiscal consolidation and austerity programmes in major developed countries, weakening global demand, financial market turbulence and paltry growth in the euro area.

II. Economic performance in Africa, 2013

Africa's growth potential

11. Africa's growth potential remains largely untapped. The continent's GDP growth rate slowed from 5.7 per cent in 2012 to 4.0 per cent in 2013, against an average of 4.6 per cent among developing economies (figure I). The slowdown was attributable mainly to weakened global demand following the financial and debt crisis in the eurozone and sluggish growth in some emerging economies, together with political instability and civil unrest in some major commodity producing countries, especially in Central and North Africa.

Figure I
Growth in gross domestic product, 2010-2014

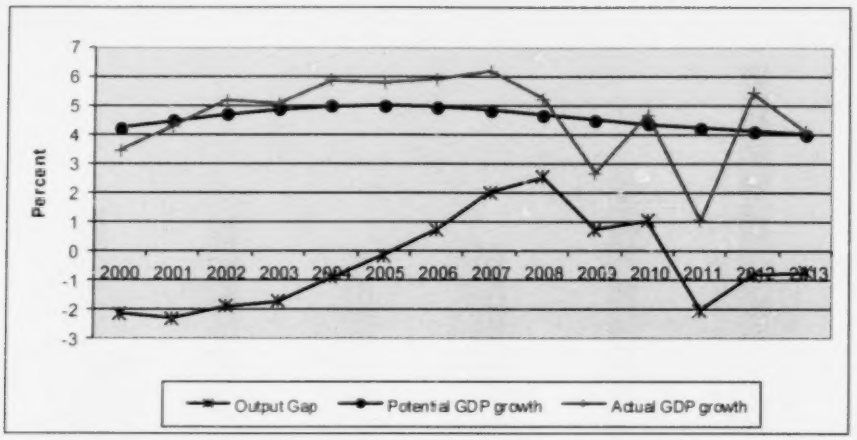


Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

12. Growth in Africa continued to benefit from relatively high commodity prices, increased trade and investment ties with emerging economies, increased domestic demand underpinned by a growing class of new consumers associated with urbanization and rising incomes and public spending on infrastructure. The continent's growth in 2013 was also based on increased agricultural output resulting from favourable weather conditions in most parts of the region.

13. That said, however, Africa's output gap — the difference between actual and potential real output as a percentage of potential output estimated using the Hodrick-Prescott filter — was generally negative during the period 2000-2013, which means that African countries were underperforming (figure II).

Figure II
Africa's output gap, 2000-2013



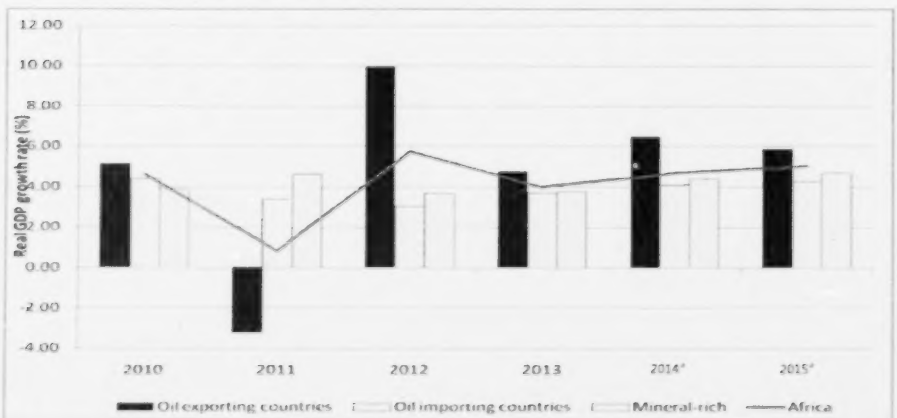
Source: Calculations based on information from the Department of Economic and Social Affairs (2014).

14. During the period 2009-2013, African economies grew by 3.6 per cent a year, below the continent's potential of about 4.2 per cent over the same period. This gap demonstrates the existence of spare capacity in Africa, suggesting that growth can be fostered by policies that stimulate aggregate demand and trade within Africa and between Africa and the rest of the world.

Stronger growth in countries rich in oil and minerals

15. In 2013, although GDP growth was relatively strong throughout Africa, the rates for oil-exporting and oil-importing countries differed (figure III).

Figure III
Performance in oil-exporting, oil-importing and mineral-rich African countries and in Africa as a whole, 2010-2014



Source: Department of Economic and Social Affairs (2014).
[#] Forecast.

16. Growth in oil-exporting African countries fell from 9.9 per cent in 2012 to 4.7 per cent in 2013. A recovery accounted for the unusually high growth in 2012, while the decline in 2013 was attributable — in addition to the high baseline — mainly to subdued global demand combined with disruptions in oil production and political unrest in some of Africa's major oil-producing economies, such as Libya. The economies of oil-importing countries grew by 3.7 per cent in 2013, up from 3.1 per cent in 2012, while mineral-rich economies recorded 3.8 per cent in 2013, a slight increase from 3.7 per cent in 2012.

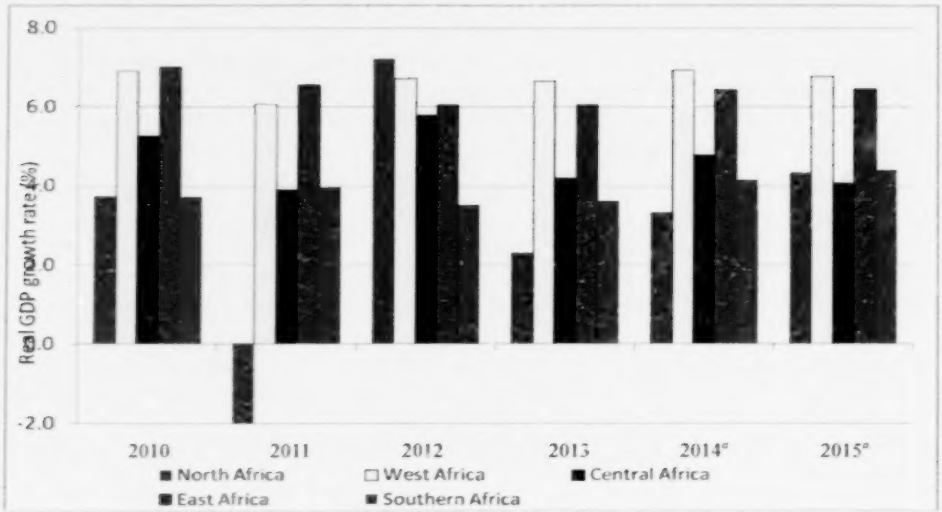
17. Growth is expected to accelerate in the oil-exporting countries to 6.5 per cent in 2014, with a slight decline to 5.9 in 2015, while mineral-rich economies will accelerate to 4.4 per cent in 2014 and 4.7 per cent in 2015, as stability returns to countries such as Egypt, Libya and Mali. The expected pickup also reflects investment and production at new mineral sites, including in Angola (coal), Botswana (copper, coal and diamonds), Ghana and Liberia (gold), Namibia (uranium and diamonds), Sierra Leone (iron ore and diamonds) and Zambia (copper). Oil importing economies are also expected to record strong growth, at rates of 4.1 per cent in 2014 and 4.3 per cent in 2015, driven mainly by strong expansion in services and agriculture (assuming that favourable weather conditions prevail).

Growth outcomes by subregion

18. Growth rates among Africa's subregions varied slightly more in 2013 than they did in 2012 (figure IV).

19. West Africa's growth rate in 2013, while being the highest in the continent, remained unchanged at 6.6 per cent. Growth in the subregion's largest economy, Nigeria, remained unchanged at 6.5 per cent in 2013, as increases in domestic demand seem to have compensated for a decline in oil output and weaker global oil prices. Investments in oil and mining supported growth in the Niger, where the growth rate was 5.7 per cent. Côte d'Ivoire registered a growth rate of 8.8 per cent that was driven by large infrastructure projects made possible by a more stable political environment, a more propitious investment climate and greater capital spending by the Government. In Ghana, growth remained robust (8.0 per cent) as a result of higher levels of oil production. Iron ore production remained the main driver of growth in Liberia and Sierra Leone, which recorded strong rates of 7.4 per cent and 14.5 per cent, respectively.

Figure IV
Growth by subregion, 2010-2014



Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

20. East Africa's growth in 2013 also remained robust but unchanged at 6.0 per cent. Growth in the subregion's largest economy, Kenya, rose to 5.0 per cent in 2013 from 4.6 per cent in 2012, owing mainly to increased consumer spending. The economy of the United Republic of Tanzania grew by 7.2 per cent in 2013, mainly as a result of increased private consumption and investment in natural gas. The economy of Uganda grew by 5.8 per cent in 2013, up from 4.4 per cent in 2012, reflecting an increase in construction, transport, telecommunications and financial services, as well as investments in exploration and construction activities related to the burgeoning oil industry. Expansion in the agricultural and service sectors was one of the major factors underpinning growth in Ethiopia, which recorded a rate of 6.9 per cent in 2013. Growth continued to be strong in Rwanda (7.4 per cent) and Eritrea (6 per cent), less so in Seychelles (3.2 per cent).

21. Growth in Central Africa slowed from 5.8 per cent in 2012 to 4.2 per cent in 2013, largely owing to political instability and violence, especially in the Central African Republic, where the economy contracted by 8.9 per cent in 2013. In 2013, oil production underlay robust growth in the Congo (6.0 per cent), Gabon (5.5 per cent), Cameroon (5.0 per cent) and Equatorial Guinea (1.8 per cent). The decline in oil production from some of the large and maturing oilfields in Chad cut growth from 5.9 per cent in 2012 to 4.5 per cent in 2013.

22. Growth in Southern Africa edged up from 3.5 per cent in 2012 to 3.6 per cent in 2013, mainly owing to increased investment in the mining sector. The recovery of South Africa was marginal (2.7 per cent in 2013 against 2.5 per cent in 2012), partly because of labour unrest in the mining sector and the economic slowdown in key emerging markets, the country's most important export destinations. Zambia, with increased copper production and consumer spending, registered the highest growth rate in the subregion (7.7 per cent), followed by Angola (6.8 per cent), whose

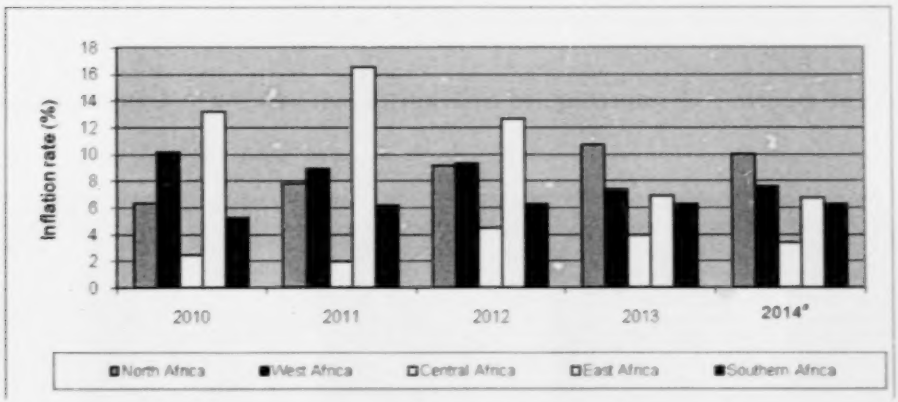
growth, as in previous years, relied heavily on oil output. Growth in Mozambique decelerated to 6.5 per cent in 2013 from 7.4 per cent in 2012, owing mainly to floods early in 2013 that affected agriculture, electricity generation and coal production.

23. Political instability and disruptions to oil output undermined growth in North Africa — particularly in Egypt, Libya and Tunisia — cutting it to 2.3 per cent in 2013 from 7.2 per cent in 2012. Mauritania registered the strongest growth (6.1 per cent in 2013, down from 7.4 per cent in 2012), mainly as a result of increased investment in the oil and mining sectors. Propelled by robust domestic demand and improved agricultural performance, growth in Morocco accelerated to 4.6 per cent in 2013 from 2.7 per cent in 2012. Increased oil production and continued expansionary fiscal policy enabled Algeria to reach a growth rate of 3.0 per cent. Growth continued to weaken in Egypt, as aggregate demand, especially investment, and tourism receipts all fell owing to political uncertainty. Instability in Libya hurt oil output and exports, cutting growth to -3.0 per cent (after the prior year's sharp recovery). The economy of the Sudan, which continued to absorb the shocks caused by oil and population losses to South Sudan, returned to growth (2.0 per cent) after its 2012 contraction (4.0 per cent), reflecting growth in services, agriculture and manufacturing.

Declining inflationary pressure amid tight monetary policy

24. For Africa as a whole, the inflation rate fell from 8.2 per cent in 2012 to 8.0 per cent in 2013 and is projected to drop further, to 7.8 per cent, in 2014. Factors include the easing of international food and fuel prices, together with tighter monetary policies in most African countries (figure V).

Figure V
Inflation rate by subregion, 2010-2014

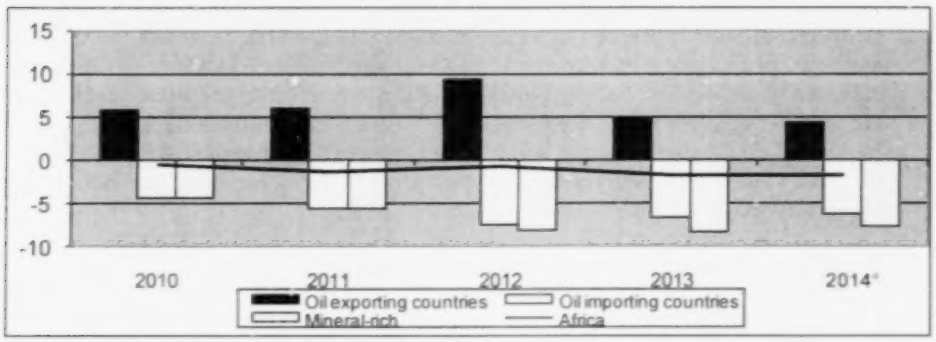


Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

Mixed external performance in oil-exporting, oil-importing and mineral-rich countries

25. Africa's current account deficit increased from 0.8 per cent of GDP in 2012 to 1.8 per cent in 2013, but is expected to decrease slightly, to 1.7 per cent, in 2014 (figure VI). In oil-exporting countries, external balances are expected to fall but remain positive, while in oil-importing and mineral-rich countries they are expected to decrease and remain negative.

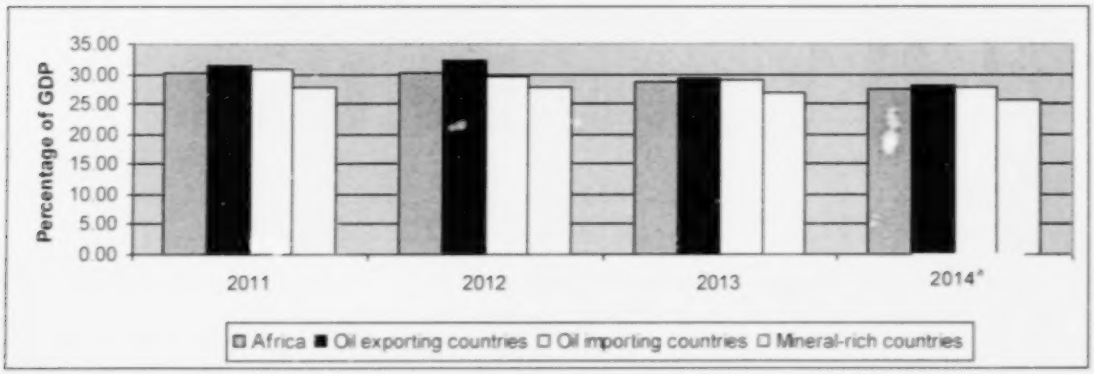
Figure VI
Current account balances of oil-exporting, oil-importing and mineral-rich countries and of Africa as a whole, 2010-2014 (percentage of GDP)



Source: Calculations based on information from the Economist Intelligence Unit (2013).
* Forecast.

26. Africa's exports are projected to decline further in 2014, to 27.5 per cent of GDP, in all subregions except East Africa (figure VII), where a slight gain has been observed owing to increasing non-traditional exports, such as flowers, and trade in services, especially in Ethiopia, Kenya and the United Republic of Tanzania.

Figure VII
Total exports by oil-exporting, oil-importing and mineral-rich countries and by Africa as a whole, 2011-2014



Source: Calculations based on information from the Economist Intelligence Unit (2013).
* Forecast.

III. Recent developments in Africa's trade

Diversification of African exports

27. If it is to boost its trade and sustain GDP growth, Africa must diversify its exports. Although the volume of exports has in general kept growing in absolute terms, it declined in 2013 relative to aggregate output and, although the volume of trade in African merchandise grew faster than it did in non-African economies from 2011 to 2012, Africa's share of world exports remains small. According to the United Nations Conference on Trade and Development, in 2012 the continent accounted for just 3.3 per cent of world merchand'se exports, down from the share of 4.9 per cent recorded during the period 1970-1979 but a little better than the 2.8 per cent recorded during 2000-2010. Africa's share of world imports has experienced a similar slowdown.

28. Even if trade between Africa and its traditional partners (the European Union and the United States) has continued to increase in recent years in absolute terms, Africa is diversifying its sources of imports and its export destinations in favour of developing economies. Between 2000 and 2012, Africa's share of total world exports to developing countries increased from 2.6 per cent to 3.8 per cent. After 2009, the group of countries composed of Brazil, China, India, the Russian Federation and South Africa became Africa's second-largest trading partner after the European Union, excluding South Africa.[4]

Intra-African trade

29. Formal intra-African trade in merchandise is rising but informal trade remains significant. Intra-African trade rose from $67.7 billion in 2011 to $73.7 billion in 2012.[5] In 2012, the share of intra-African trade accounted for 11.5 per cent of Africa's total trade. Between 1996 and 2011, Africa's trade with the rest of the world grew at a rate of 12 per cent, faster than the 8.2 per cent registered for intra-African trade, mainly because of high commodity prices. Africa's exports to the rest of the world, in fact, are skewed towards primary commodities, predominantly fuels, ores and metals, while intra-African trade is dominated by the export of manufactured goods (figure VIII).

30. Informal intra-African cross-border trade is not recorded but is nonetheless significant, accounting for 30–40 per cent of total trade within the countries of the Southern African Development Community. In West Africa, the informal sector makes up a large proportion of GDP in some countries, with estimates ranging between 20 and 90 per cent.[6] Strategies to formalize informal agents — in trade and other sectors — should therefore be considered.

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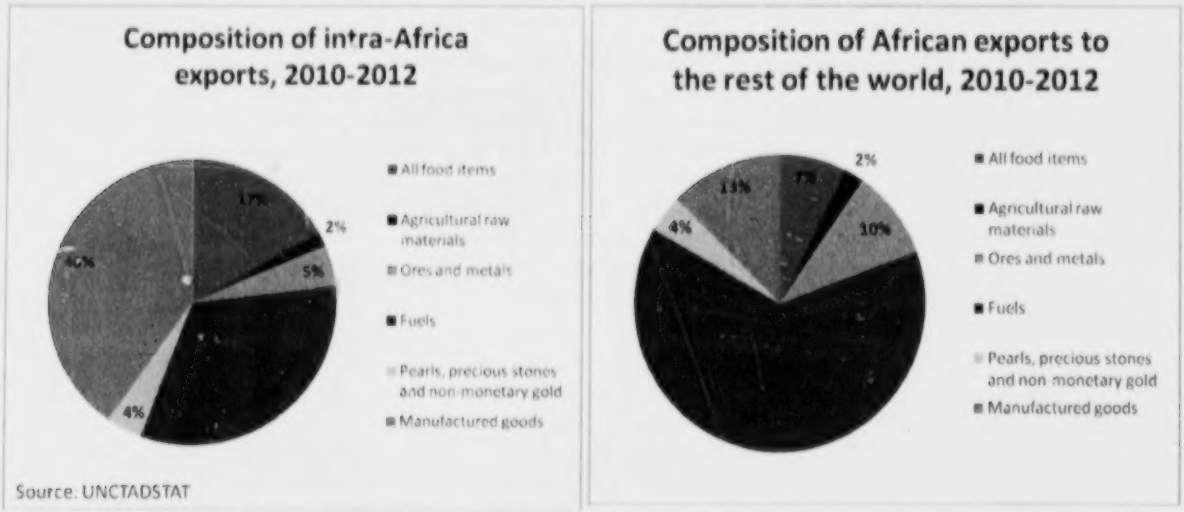
[4] Economic Commission for Africa, *Africa-BRICS Cooperation: Implications for Growth, Employment and Structural Transformation in Africa* (Addis Ababa, 2013).

[5] United Nations Conference on Trade and Development, UNCTADStat database. Available from http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx (accessed in November 2013).

[6] Economic Commission for Africa, African Development Bank and African Union, *Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade* (Addis Ababa, 2010).

Figure VIII
Composition of African exports



Source: United Nations Conference on Trade and Development (2013).

Trade in services

31. The steep increase in global trade in services over the past three decades has also been reflected in Africa. The service sector is the fastest-growing sector in the global economy, accounting for one fifth of global trade and three quarters of global output; the value of Africa's exports of commercial services to the world more than doubled over the past decade.[7]

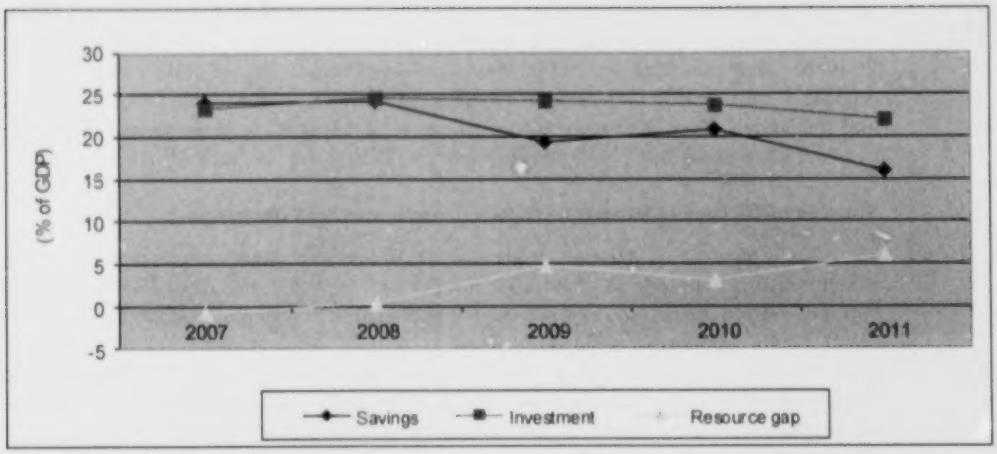
IV. New approaches to bridge Africa's financing gap

Investment in Africa

32. Scaling up both domestic and external financial resources is central to Africa's industrialization, as its financing gap remains large, at around 6 per cent of GDP in 2011. Since 2008, the gross domestic savings rate has consistently been lower than the gross domestic investment rate (figure IX).

[7] World Trade Organization, *World Trade Report 2013: Factors Shaping the Future of World Trade* (Geneva, 2013).

Figure IX
Africa's financing gap, 2007-2011



Source: Calculations based on information from the World Bank (2013).

33. Flows of foreign direct investment to Africa have risen steadily over the past few years, from $20 billion in 2001 to $50 billion in 2012, which was 5 per cent higher than in 2011. Although most of these inflows have been to the extractive industries, there has been an increasing number of success stories of market-seeking investments, in particular in the manufacturing sector, that are not directly linked to those industries.

34. Since 2010, remittances have become Africa's largest external source of financing, with an estimated inflow of $62.5 billion in 2012, up from only $13.5 billion in 2001. In 2013, members of the diaspora had to pay 12.1 per cent per transaction valued at $200 or the equivalent in local currency to send money home, which means that sub-Saharan Africa remains the most expensive region to which to remit funds.[8] If this cost could be brought down to around 5 per cent — a target set by the Group of Eight and the Group of 20 for 2014 — it has been estimated that Africans could save up to $4 billion a year.[9]

35. Total official development assistance to Africa increased from $51.3 billion in 2011 to $56.1 billion in 2012, despite the continuing global financial crisis and the turmoil in the eurozone, which led several donors to tighten their aid budgets. Much of that assistance (40 per cent of commitments in 2011) targeted social infrastructure (health and education), with about only 2 per cent targeting industry, mining and construction.

36. Given that domestic savings and external capital flows have often fallen below the levels needed to bridge the financing gap, many African countries have resorted

[8] World Bank, "Migration and remittance flows: recent trends and outlook, 2013-2016", *Migration and Development Brief No. 21* (2 October 2013).

[9] World Bank, "African migrants could save $4 billion annually on remittance fees", Send Money Africa database. Available from http://sendmoneyafrica.worldbank.org (accessed in November 2013).

to borrowing to finance domestic investment. As a result, foreign debt as a share of GDP has continued to rise, from 22.7 per cent in 2010 to 24 per cent in 2013.

37. Although tax revenues are the largest source of domestic resources in Africa, tax collection as a share of GDP increased only marginally, from 26.6 per cent in 2009 to 27.0 per cent in 2011. Worse, several countries, including the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Liberia, Nigeria and the Sudan, have tax ratios below 10 per cent. Most African economies continue to experience challenges in expanding and exploiting the tax base.[10]

Sources of finance to support Africa's growth and transformation

38. The financing of Africa's industrialization and economic transformation has to be increasingly based on domestic public and private resources.[11] For that to happen, Africa needs to explore new approaches to raising capital to meet its development agenda. In addition to using traditional domestic sources of financing, such as taxes and levies and private savings, Africa needs to adopt a broader and more diversified set of instruments, mechanisms and financial products, and create an environment conducive to mobilizing resources from non-traditional sources. Fresh approaches to development financing revolve around sovereign wealth funds, pension funds, insurance savings, private equity funds, diaspora and sovereign bonds, remittances and public private partnerships, as well as the curtailment of illicit financial flows.

V. Transformative policies for inclusive growth

39. Africa is making progress on some key challenges, but it is doing so too slowly to meet its social development goals, including the Millennium Development Goals.

Progress in some key social development indicators

40. In many countries, the incidence of extreme poverty is on the decline. Attending primary school is becoming the norm, as most countries have achieved universal primary school enrolment (above 90 per cent). Nearly one half of African countries have achieved gender parity in primary school. On the political front, 20 per cent of seats in African national parliaments are now held by women, a figure surpassed only in Latin America and the Caribbean. Major gains have also been made in respect of health: between 1990 and 2011, mortality rates for children under 5 years of age declined by 38 per cent, from 146 to 90 deaths per 1,000 live births. Similarly, the maternal mortality rate declined, by 42 per cent, between 1990 and 2010, from 745 to 429 deaths per 100,000 live births. Strong gains have been made in addressing HIV/AIDS: adult HIV/AIDS prevalence declined from 5.9 per cent in 2001 to 4.9 per cent in 2011, HIV/AIDS-related deaths fell by 32 per cent between 2005 and 2011, and new infections among children also tumbled, by 52 per cent

[10] African Development Bank, Organization for Economic Cooperation and Development, UNDP and Economic Commission for Africa, *African Economic Outlook 2013: Structural Transformation and Natural Resources* (Paris, 2013).

[11] Economic Commission for Africa and African Union, *Economic Report on Africa 2013* (Addis Ababa, 2013).

during 2001-2012, largely as a result of efforts to increase access to antiretroviral therapy.

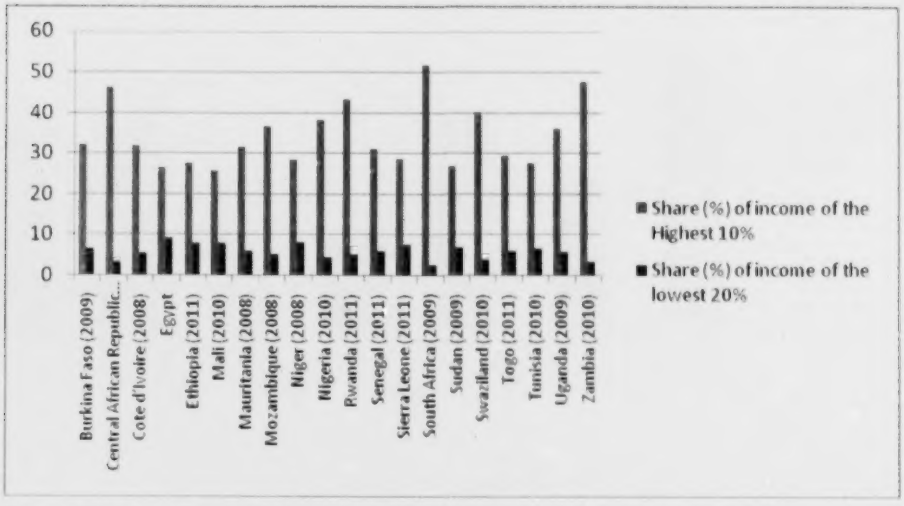
High poverty levels and limited access to social services

41. The continent is still far from reaching most of the Millennium Development Goals. A total of 48 per cent of Africans live in extreme poverty and 72 per cent of the continent's youth live on less than two dollars a day. Burundi, Ethiopia, Nigeria, Uganda and Zambia have a youth poverty rate of over 80 per cent.[12] While the world as a whole is on track to meet the target to halve, by 2015, the proportion of the population without sustainable access to safe drinking water, Africa is not, and the continent now accounts for more than 40 per cent of people without access to safe drinking water. Furthermore, most African countries are not on track to meet the target regarding access to basic sanitation; coverage edged up by a mere 4 percentage points from 1990 to 2010 and stark disparities remain between rural and urban areas.

Inequality undermining efforts to reduce poverty

42. The unimpressive impact of growth on livelihoods and access to social services has widened gender, income and rural-urban inequalities, resulting in increased poverty in many African countries (figure X), where the poorest 20 per cent of the population account for less than 10 per cent of their country's total income while the richest 10 per cent control between one fourth and one half of it.

Figure X
Income distribution inequality



Source: Database of the World Bank World Development Indicators (November 2013).

[12] Maurice Mubila, Laurence Lannes and Mohamed S. Ben Aissa, "Income inequality in Africa", *Briefing Note No. 5* (African Development Bank (Tunis, 2012)).

43. In 2008, sub-Saharan Africa was identified as the second-most unequal region in terms of income inequality after Latin America and the Caribbean.[13] An increase in inequality of 1 per cent increases poverty by 2.16 per cent in Africa, where gender inequalities persist. In countries such as Algeria, Côte d'Ivoire and Mauritania, women are paid only around one half what men are paid for similar work.

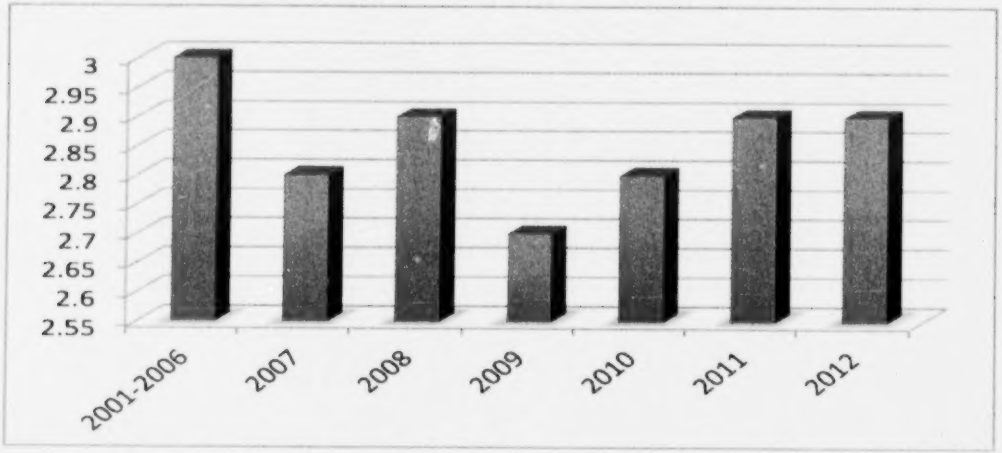
44. Disparities in terms of gender and location clearly affect access to social services: births to women in the richest quintile are nearly three times as likely to be attended by a trained professional as those in the poorest quintile and 90 per cent of women in urban areas have at least one antenatal care visit during pregnancy compared with 71 per cent of women in rural areas. Girls in the poorest 20 per cent of households are three times more likely to be out of school than girls in the highest-income group, and children from the poorest households are twice as likely to be underweight as those from richer households.[14] In short, slow progress in addressing poverty and inequality has undermined opportunities for human development for large segments of the population.

45. Labour market indicators are still positive after the 2008-2009 global economic and financial crisis. Employment growth in Africa (excluding North Africa) was firm at 2.9 per cent in 2012 (figure XI) and the employment-to-population ratio reached 65.1 per cent in 2012, largely driven by women's increased participation; that ratio was second only to that for East Asia (69.8 per cent). By contrast, in the rest of the world the employment-to-population ratio in 2012 remained stagnant at 60.3 per cent.[2]

Figure XI

Annual employment growth in Africa (excluding North Africa)

(Percentage)



Source: Calculations based on information from ILO (2013).

[13] Isabel Ortiz and Matthew Cummins, "Global inequality: beyond the bottom billion — a rapid review of income distribution in 141 countries", *UNICEF Social and Economic Policy Working Paper* (UNICEF, New York, April 2011).

[14] Economic Commission for Africa, African Union, African Development Bank and United Nations Development Programme, *Assessing Progress in Africa toward the Millennium Development Goals: Millennium Development Goals Report 2011* (2012).

46. The indicator for the working poor (working people whose incomes fall below a given poverty line) has also maintained its positive trend in Africa, mainly because of minimum wage policies that in some countries have raised wages above the international poverty line and the harnessing of natural resources, which has triggered improvements in working people's conditions.[2,14] In some North African countries, however, this indicator has worsened, as Governments prioritize unemployment reduction.

47. Most Africans are locked into vulnerable jobs with low wages and low productivity. With 46.5 per cent of workers earning less than $1.25 a day in 2012,[15] the proportion of persons in vulnerable employment in Africa is stubbornly high compared with other regions.[2] This largely stems from an abundant labour supply coupled with an absence of social safety nets, which makes it difficult for many low-skilled workers to exit the labour market, as they have no alternative means of survival.[16]

48. The figures remain highly skewed against women and youth: in 2012, 84.9 per cent of African women were engaged in vulnerable employment — the majority of them contributing family workers — against 70.6 per cent of men.[15] Cultural impediments and scarce economic opportunities still push women into informal and vulnerable jobs.

49. These challenges are particularly pressing for young Africans. The population of the continent is among the world's youngest and fastest growing. Yet, formal employment is elusive and most young people are underemployed or self-employed in the informal or agricultural sectors.

50. Although official youth unemployment rates in Africa (excluding North Africa) are lower than in most other regions, they are much higher than adult unemployment rates. Unfortunately, in 2012 unemployment rates rose for both groups, by around 12 per cent and around 6 per cent respectively. While a lack of skills is commonly the main hurdle for youths trying to enter the labour market, unemployment also results from a lack of jobs and a mismatch between skills demanded and supplied.[17]

Employment prospects hindered by late labour productivity gains

51. Labour productivity increased by an average of 1.6 per cent during 2000-2011 and by 2.3 per cent during 2012-2013, but remains low compared with East Asia, where it grew by 7.5 per cent over the same period. It is expected to drop to a cumulative 1.9 per cent over the period 2014-2016, mainly because of inadequate investment in human and financial capital.[2]

52. While the growth in productivity in Africa is partly due to the shift of labour from less productive to more productive sectors, particularly from agriculture to

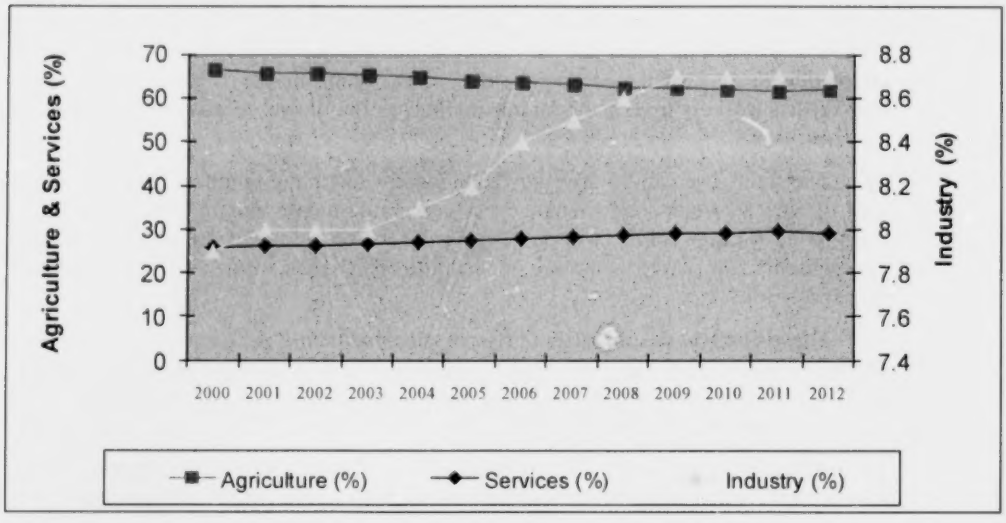
[15] Economic Commission for Africa, African Union, African Development Bank and United Nations Development Programme, *Assessing Progress in Africa toward the Millennium Development Goals: Millennium Development Goals Report 2013 — Food Security in Africa: Issues, Challenges and Lessons* (2014).

[16] *Millennium Development Goals Report 2012* (United Nations publication, Sales No. E.12.I.4).

[17] African Development Bank, draft human capital development strategy, 2012-2016. Available from www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/FINAL%20human%20capital%20development%20strategy%20(2012-2016).pdf.

services, jobs are not moving out of agriculture or industry as fast as expected. Services are absorbing most of the jobs that used to be in the agricultural sector, leaving employment in industry almost stagnant at 8.6 per cent over the past 12 years (figure XII). This is likely to hinder economic and employment prospects, as most of the jobs in the agricultura; and service sectors remain informal, characterized by low productivity, low wages and poor working conditions.

Figure XII
Employment share by sector in Africa (excluding North Africa)



Source: Calculations based on ILO estimates, Key Indicators of the Labour Market database (seventh edition). Available from http://ilo.org/empelm/pubs/WCMS_114060/lang--en/index.htm (accessed October 2013).

Strengthening human capital

53. Stronger human capital is critical for employment, labour productivity and industrialization. The creation of decent jobs and a sharp reduction in poverty hinge on diversifying the economy so that it moves from the low-productivity agricultural and informal sectors to high-productivity sectors such as manufacturing and modern services. Consequently, policies to improve education and health should be part of economic growth and transformation strategies.

Need for further improvement in education

54. The progress made in universal primary school enrolment has not been matched by gains in terms of the rates of completion of primary education, which, as reported by the United Nations in its 2012 report on the Millennium Development Goals, has stayed at 70 per cent in Africa (excluding North Africa) over the past decade, while the global rate was 90 per cent.[16] Higher levels of education are important if pupils are to acquire the skills needed by employers and engage in independent technical and entrepreneurial activities. Basic literacy and numeracy alone — the main elements of a good primary education — are not enough to get a good job: employers want assurances that young people applying for work have,

beyond these fundamental skills, the ability to use their knowledge to provide solutions to problems, take the initiative and communicate with others, rather than just follow prescribed routines.

55. Lower-secondary school education extends and consolidates the basic skills learned in primary school; upper-secondary school deepens general education and adds technical and vocational skills. Neither is possible, however, without ensuring that all children complete a good quality primary education, which is a prerequisite for building the skills that individuals, societies and economies need.

56. Secondary school enrolment is an important channel through which young people acquire skills that improve opportunities for good jobs. In 2010, the secondary school enrolment rate in Africa (excluding North Africa) was 40 per cent while in developed countries and in South East Asia it was above 90 per cent.[18]

Lifelong impacts of inequitable access to primary education

57. Inequitable access to primary education greatly affects completion rates and the acquisition of skills. Low completion rates are mainly attributable to households' failure to enrol children in school at the right age, the pressure exerted by peers and household demands on older children to work. This means that children who enrol late are more likely to drop out than those who start school at the right age. Poverty, poor health and nutritional status, and a lack of parental awareness of the importance of sending children to school on time are exacerbating factors.[19]

58. Another factor contributing to low completion rates is teacher quantity and quality, a serious constraint to educational attainment. Even with the 59 per cent increase in the preparation of trained teachers between 1999 and 2010, the number of new teachers needed in Africa just to achieve universal primary education has been calculated at more than 2 million.[18] In many countries, the proportion of teachers trained to national standards is very low and many teachers often lack the subject knowledge and ability necessary to instruct effectively.

Better health for higher productivity and economic transformation

59. Ill health affects productivity in a range of ways. In agriculture, which employs the bulk of Africa's workforce, absenteeism owing to illness and caring for the sick undermines productivity, as does the loss of savings and assets that occurs when dealing with diseases. When illness leads to long-term incapacity, risk-averse behaviour becomes even more apparent, as households sell important assets and withdraw children from school. Risk aversion as a coping strategy is exacerbated by the persistence in the African policy landscape of out-of-pocket spending on health services, which represents a substantial factor leading households into poverty.

60. In Egypt, Ethiopia, Swaziland and Uganda, the prevalence of the working-age population that was stunted in early childhood is in the range of 40-67 per cent. The associated loss in GDP productivity is substantial and has been estimated at between 0.5 and 3.8 per cent.

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[18] Institute for Statistics of the United Nations Educational, Scientific and Cultural Organization, "Opportunities lost: the impact of grade repetition and early school leaving", *Global Education Digest 2012* (Montreal, Canada, 2012).

[19] UNESCO, *UNESCO and Education: Everyone Has the Right to Education* (Paris, 2011).

VI. Conclusions

61. Although robust, Africa's recent growth remains below potential and has failed to translate into meaningful job creation and the broad-based economic and social development needed to reduce the high poverty and inequality rates seen in many countries. It is therefore essential that African countries embark on strategies to transform their economies by increasing the value added to products in the primary commodity sector and by diversifying into higher-productivity employment-generating sectors, especially manufacturing and modern services.

62. Industry — manufacturing in particular — has traditionally been a significant source of employment in developed and developing countries. Africa's decade-long high growth notwithstanding, the contribution of the sector to aggregate output and GDP growth has either stagnated or declined in most countries.

63. Reversing this trend calls for industrial policies in long-term planning frameworks that address constraints to economic diversification and development. To finance the necessary investments, Africa needs to tap into new sources of financing, especially innovative domestic sources.

64. A well-crafted growth and transformation strategy that enhances the productive capacities of all segments of the labour force tends to reduce inequality by promoting equal opportunities for employment, which is why economic transformation strategies should embody policies to promote high-quality education and health services, powering greater productivity and more inclusive growth.

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Regional cooperation

Summary of the Economic and Social Survey of Asia and the Pacific 2014

Note by the secretariat of the Economic and Social Commission for Asia and the Pacific**

Summary

The average growth rate of the developing economies of Asia and the Pacific is forecast to rise moderately in 2014. However, in line with the diversity of the region, the growth performance will vary across subregions and countries.

Faster growth in the region is being held back by a number of factors. First, slow growth in advanced economies continues to negatively impact the region's exports and financial markets. Second, the tapering of quantitative easing by the United States of America is putting further pressure on the recovery of several economies in the region by causing significant capital outflows. Third, economies, especially some of the larger developing economies, are facing a number of domestic challenges, including infrastructure shortages, large budget deficits, inflationary pressure and rising and persistent inequality.

With constrained growth prospects, productive government spending is critical to supporting inclusive growth and sustainable development. Unlocking the fiscal space for such spending poses a challenge that the *Economic and Social Survey of Asia and the Pacific 2014* seeks to examine. It does so by analysing how countries can raise more tax revenues, given the fact that taxes in most countries in the region are often neither sufficient nor equitable. The *Survey* estimates show that a large number of countries have significant tax potential. Tapping this would enable tax revenues to rise by 70 per cent or more in several of them.

* E/2014/1/Rev.1, annex II.

** The late submission of the present document is due to the non-availability of 2014 data by the deadline for submission of documents to Conference Services.

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Tax revenues may be enhanced through a number of policy measures, including, in particular, broadening tax bases and rationalizing tax rates to provide greater incentives for tax compliance. Strengthening regional tax cooperation would further contribute by stemming tax competition and the illicit transfer of funds.

The *Survey* argues that tax administrations must be made more effective and transparent to tackle tax evasion and tax fraud. It provides a number of policy options for sequencing tax policy reforms and tax administration and calls for the establishment of special tax courts to deal with tax fraud expeditiously. It also makes the case for establishing an Asian tax forum, under the aegis of the Economic and Social Commission for Asia and the Pacific, to monitor the tax legislation of member countries and publish a regular review of tax reforms with a view to harmonizing tax regulations and sharing best practices.

The Commission may wish to deliberate on the issues and policy proposals set out in the present document and consider how the proposals could be strengthened for the shared benefit of Member States.

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I. Introduction

1. In 2014, the average growth rate of the developing economies of Asia and the Pacific is forecast to rise to 5.8 per cent.[1] This represents a modest increase of 0.2 percentage points over 2013. Reflecting the diversity of the region, growth performance is forecast to vary substantially among subregions and economies. While growth in South and South-West Asia and developing Pacific economies is expected to improve, the other subregions are likely to see stable or slowing performance.

2. Although the developing Asia-Pacific economies continue to anchor global economic recovery, both external and internal factors are holding back faster growth of those economies. Besides slow recovery in advanced economies, capital outflows owing to reversal of monetary policy in the United States of America pose difficulties for a number of economies. Growth in some large developing economies in the region is also challenged by domestic structural impediments.

3. Growth and macroeconomic stability in the region continue to be affected by the low growth and policies of the developed world. Concerns about the United States Federal Reserve's reduction of quantitative easing, or bond buying programme (referred to as "tapering"), caused significant asset market volatility first in September 2013 and again in January 2014. Countries responded with a mix of policies, namely, allowing currencies to depreciate, using foreign exchange reserves and raising interest rates.

4. In 2013, some of the region's major economies were also impacted by domestic challenges, including infrastructure shortages, large budget deficits, inflationary pressure, inadequate expansion of good quality jobs in the formal sector and rising inequality. The region's constrained domestic growth prospects underline the importance of productive government spending to support inclusive growth and sustainable development. A critical challenge will be the funding of the necessary development programmes.

5. The *Survey* analyses in detail how to raise domestic resources and, especially, expand fiscal space. In particular, countries need to strengthen tax collection, since current tax revenue levels are neither sufficient nor equitable. Analysis of the level and composition of existing tax revenues in selected countries of the region demonstrates that several of these countries have significant tax potential that remains untapped. Tapping that potential would enable tax revenues to rise by 70 per cent or more in a number of economies. While some tax exemptions and concessions are useful, many are unproductive and are depressing tax revenues. Moreover, unless foreign investors can offer something extra compared with domestic investors, preferential tax treatment of foreign investors only distorts competition and puts local companies at a disadvantage.

6. Tax revenues may be enhanced through a number of policy measures. These include, for instance, broadening tax bases, rationalizing tax rates to provide greater incentives for tax compliance, expeditious dealing with tax evasion and tax fraud and making tax administrations more effective and transparent. In this context, the *Survey* outlines a strategy for sequencing tax policy and tax administration reforms, including establishing special tax courts. It also argues that strengthening regional

[1] All forecasts and data are as at 17 April 2014.

cooperation would enable countries to raise tax revenue levels by stemming tax competition and illicit transfer of funds. In that regard, the *Survey* proposes an Asian tax forum under the aegis of the Economic and Social Commission for Asia and the Pacific (ESCAP).

7. The following summary of the *Survey* is divided into four sections. Section II considers the challenges facing the region in greater detail. It begins with a discussion of growth prospects in developed countries and the potential for spillover of the policies of developed countries to the region. It then discusses growth and inflation prospects in the region, including in some major regional economies. This is followed by the outlook for regional trade developments and prospects for foreign direct investment. Section III discusses some major socioeconomic challenges in the region, such as the problem of job creation and its quality and the persistent problem of inequality. Section IV provides policy recommendations to address some of these issues. They include productive government spending to directly support growth in the short term while helping to address structural challenges affecting growth in the long term; measures to address youth unemployment, a particularly important part of the jobs challenge; and policies to manage the risks from volatility in financial flows.

8. Section V explains in greater depth the findings of the *Survey* on how to expand fiscal space. It begins by explaining why strengthening tax revenues may be the most promising path to creating fiscal space in the region and highlights how the composition of tax revenues matters as much as the level of revenues. This is followed by a presentation of estimates of the tax potential in selected countries of the region, highlighting those that are currently collecting lower tax revenues than would be appropriate given their economy's structure. Lastly, policy options on how countries could enhance their tax revenues are presented.

II. Growth recovery under pressure

A. Slow growth and policies of developed economies impacting the region

9. In 2013, growth in the region was impacted by slow growth in the major developed economies, namely, the United States, the euro zone and Japan. Given the importance of these economies in terms of trade and investment linkages, their continued slow recovery remains a concern for the region. It will be challenging to significantly increase growth in the major developed economies in the near term. A surge in consumer demand is unlikely to occur in the United States and the euro zone with joblessness remaining high. While 2013 saw reasonably calm euro zone financial markets, there remains the risk of macroeconomic instability resulting from any renewed loss of confidence by investors in the progress of debt resolution. Furthermore, there are differing views regarding the possibility of deflation in the euro zone.[2] Within Asia and the Pacific, the growth outlook for Japan will depend on the impact of the ongoing reform programme, including a range of policies to be announced to change the country's economic structure and the increase in the sales tax enacted in April 2014.

[2] International Monetary Fund (IMF) "Euro Area: 'Deflation' Versus 'Lowflation'" (2014).

10. Policies in the developed world also had a significant impact on the region through spillovers from the tapering of quantitative easing by the United States. January 2014 saw an episode of capital outflows from the region. The greatest equity market falls were in Turkey (7.7 per cent) and in India (4.4 per cent). This followed a more widespread exit of funds in the third quarter of 2013 in the expectation in the financial markets that tapering would start in September 2013. The Turkish equity market experienced the greatest decline (-25 per cent) between June and August 2013, followed by Indonesia and Thailand (nearly -20 per cent). In August 2013 alone, stock market capitalization in seven economies in the region declined by $323 billion compared with the previous month.

B. Domestic impediments to growth

11. Growth in the Asia-Pacific region in 2013 was also impacted by relatively low growth in some major regional economies owing to domestic challenges. Some of the major challenges are infrastructure shortages, large budget deficits, inflationary pressure, inadequate job creation in the formal sector and rising inequality.

12. Infrastructure shortages have led to significant gaps in productive capacity. These gaps have contributed to inflationary pressures. Inadequate growth in formal sector jobs and the rise in informal or vulnerable jobs constrain sustainable expansion of domestic demand when external demand is faltering. Research confirms that rising inequality, which is growing across the region, is harmful to economic stability and growth. The *Survey* finds a positive association between inequality (Gini coefficient) and household debts.

13. Relatively slow growth in China, India and Indonesia compared with the pre-crisis level impacted the growth in smaller countries owing to their dependence on these larger economies through the regional value chain.

C. Growth and inflation prospects in the region

14. Growth in the region in 2013 increased slightly from 5.4 per cent in 2012 to 5.6 per cent. However, subregional growth experiences in 2013 vary. In East and North-East Asia, a highly trade-dependent subregion, growth edged up to 4.2 per cent in 2013, benefiting from improved global growth prospects. The deceleration in growth witnessed in China since 2010 was halted in 2013, while growth in most other economies improved. The subregion as a whole is projected to exhibit steady growth performance in 2014, although the economies of China and Japan could slow modestly. China is unlikely to return to the pre-crisis growth rates in the short to medium term, since more effort will be put into rebalancing growth and increasing the share of domestic demand, particularly through consumption. Recent structural reforms, such as China's transformation towards a market-based system and the Republic of Korea's effort to promote corporate investment and job creation, should help to enhance the subregion's medium-term growth prospects.

15. South-East Asia's growth momentum slowed from 5.5 per cent in 2012 to 5 per cent in 2013. A sluggish global economic recovery held back exports, particularly in the first half of the year. Growth in domestic demand also decelerated in large emerging economies such as Indonesia owing to monetary tightening in response to higher inflation and capital flights and in Thailand on the back of rising

household debts and political uncertainty. In contrast, the economy of the Philippines grew rapidly, despite Typhoon Haiyan in late 2013. The least developed countries in the subregion, Cambodia, Lao People's Democratic Republic, Myanmar and Timor-Leste, maintained high growth rates, underpinned in part by steady inflows of foreign investment. Growth rates in this subregion are expected to remain largely unchanged in 2014. Exports should bounce back owing to stronger global demand and help in sustaining growth. However, financial market volatility, which increased in mid-2013 owing to prospects of tapering of quantitative easing, will continue to pose a downside risk.

16. North and Central Asia recorded a slower growth of 2.1 per cent in 2013 compared with 3.8 per cent in 2012. Subdued global demand for energy, gold and metals held back growth in resource-based economies, particularly the Russian Federation. Public spending, especially on social programmes, was raised in several economies in an effort to sustain domestic demand, which adversely impacted their fiscal balances. In net energy importing economies, output growth declined owing to subdued household spending with a deceleration in workers' remittances and reflected an economic slowdown in the Russian Federation, the largest host of migrant workers in the subregion. Output growth in the subregion is expected to decline further in 2014 primarily because of the impact of ongoing geopolitical instability on the economy of the Russian Federation, which is projected to grow at merely 1 per cent. Owing to strong linkages with the economy of the Russian Federation, several other economies of the subregion are also expected to experience slower growth.

17. Economic growth in South and South-West Asia picked up to 3.9 per cent in 2013 from 3.4 per cent in 2012. Growth improved in India, Maldives, Sri Lanka and Turkey. Household spending led the rebound in these economies, supported by steady farm incomes and workers' remittances. Energy shortages have constrained economic activities in several economies. Political tensions and security issues also held back growth in Afghanistan, Bangladesh, Nepal and Pakistan. The tapering of quantitative easing in the United States triggered capital market volatility in India and Turkey, which underscored weak macroeconomic fundamentals such as large current account deficits that were financed by short-term external borrowing. Room for fiscal manoeuvrability is limited given the large fiscal deficits. Growth in the subregion is projected to increase further in 2014 subject to a stronger global economy and improved household consumption and investment. Tackling supply-side constraints, especially energy shortages, is vital to the subregion's future growth.

18. Growth in Pacific island developing economies dipped from 5.3 per cent in 2012 to 4 per cent in 2013, mainly because of an economic slowdown in the resource-rich economies of Papua New Guinea and Solomon Islands. Natural disasters also constrained output growth in Fiji and Samoa. Some improvement in the performance of this subregion is expected in 2014, commensurate with the prospects of the global economy. Heavy reliance on imported food and fuel together with limited export capacity have generally caused sizeable current account deficits. Generally, key development challenges are poor resource bases, remoteness from global markets, weak public services delivery and high vulnerability to natural disasters and climate change.

19. Inflation differed substantially across the region in 2013. Inflation in exporting economies, such as those in South-East Asia and East and North-East Asia, declined or remained stable in 2013 owing to constrained global demand. Low inflation allowed accommodative monetary policy in most of these countries, with policy interest rates being stable or lower in 2013 than in 2012. On the other hand, inflation rates were generally high in South and South-West Asia and monetary policy was tightened in response in some of the countries in the subregion. The inflation outlook in 2014 in the whole region is generally moderate. However, a number of major economies such as India, Indonesia and Pakistan will continue to face significant price pressures.

D. Gradual trade recovery

20. Exports from the region are expected to pick up in 2014 as the medium-term prospects for global trade improve with ongoing recovery in major developed countries. One of the key factors preventing an even more favourable outlook for trade is the limited progress in the Doha Round of multilateral trade negotiations. The multilateral trading system has remained fragmented as seen at the Ninth Ministerial Conference of the World Trade Organization, held in Bali, Indonesia in 2013. Furthermore, ESCAP analysis indicates that export growth in the region is being hampered significantly by non-tariff trade protectionist measures globally and in the region, as well as high prevalence of trade costs.

21. Intraregional trade has expanded in recent years, helped by a deeper form of trade integration through harmonization of rules and standards. This has occurred between the Association of Southeast Asian Nations (ASEAN) and other regional economies in particular. A factor of critical importance for the region's trade relationships will be China's reform policies to improve the quality of growth by reorienting towards domestic consumption away from exports and investment. This could have significant benefits for exporting economies in the region, especially for exporters of consumer goods.

22. The low share of the least developed countries in Asia-Pacific trade continues to be a concern. These countries account for only 0.7 per cent of total regional exports, valued in 2012 at $50 billion. It is therefore particularly important to integrate the least developed countries further into regional supply chains by providing preferential market access and improving their productive capacity. At the same time, better connectivity through improved hard and soft infrastructure will be required for deeper trade integration across countries and subregions.

E. Positive outlook for foreign direct investment

23. Inflows of foreign direct investment (FDI) to developing Asia-Pacific subregions increased slightly in 2013.[3] With the increasing importance of destinations such as the ASEAN countries and China, the developing Asia-Pacific region remained the largest recipient region of global FDI flows, accounting for nearly one quarter of global FDI. Among the developing Asia-Pacific subregions,

[3] United Nations Conference on Trade and Development, *Global Investment Trends Monitor*, No. 15, 28 January 2014.

East and North-East Asia continues to attract the largest amount of FDI inflows, although the share of South-East Asia is also increasing. The developing Pacific attracts less than 1 per cent of the region's FDI inflows. Intraregional FDI flows within Asia and the Pacific are also on the rise. ASEAN countries and China are especially attractive destinations for Asian investors. However, least developed countries received FDI inflows of only about $5.5 billion in 2012.

24. Falling greenfield FDI and the possible effects of FDI in agriculture are a concern. Greenfield FDI usually has more direct benefits compared with cross-border mergers and acquisitions by creating new investment through the establishment of production facilities. FDI in agriculture has, in some instances, led to the displacement of smallholders and damage to the environment. The World Bank has highlighted the danger of land acquisitions that neglect local people's rights and the susceptibility of smallholders to manipulation by investors.[4] Appropriate policies should be in place to safeguard against speculative land investments or acquisitions and to prevent environmental degradation.

25. In addition to FDI, there is growing scope for foreign exchange earnings from remittances and tourism. By 2013, remittances to developing countries in Asia and the Pacific had increased from $49 billion in 2000 to $265 billion. The Asia-Pacific region remains the highest remittance-receiving region in the world, both in absolute and relative terms. International tourism receipts increased from $169 billion in 2004 to $320 billion in 2013. For many countries in the region, especially in the Pacific, the level of dependence on the tourism sector and related services is very significant and stands at around 20 per cent of gross domestic product (GDP).

26. Both remittances and tourism thus have the potential to play a significant role in development in the region. However, policymakers must be cognizant of possible drawbacks, such as brain drain and adverse socioecological consequences. For example, manpower exports may exacerbate brain drain and, unless remittances are invested in productive resources, have the potential to worsen inequality. Similarly, uncontrolled expansion of tourism can have adverse ecological and social consequences.

III. Socioeconomic developments

A. Jobs growth and quality: continued mixed progress

27. Considering the main socioeconomic issues facing the region, a principal concern is low formal sector job creation in many economies. Both before and after the crisis, growth in GDP in the region was not accompanied by a commensurate expansion in formal sector employment. This is due partly to technological change and labour substitution, but also to the nature and pattern of economic growth that was not based on broad-based economy-wide development.

28. There are also concerns about job quality. A majority of workers in the region are informally employed own-account or contributing family workers with limited opportunities for finding work that is more productive, secure and salaried. There is also an elevated percentage of people in the region working in very low-paid jobs.

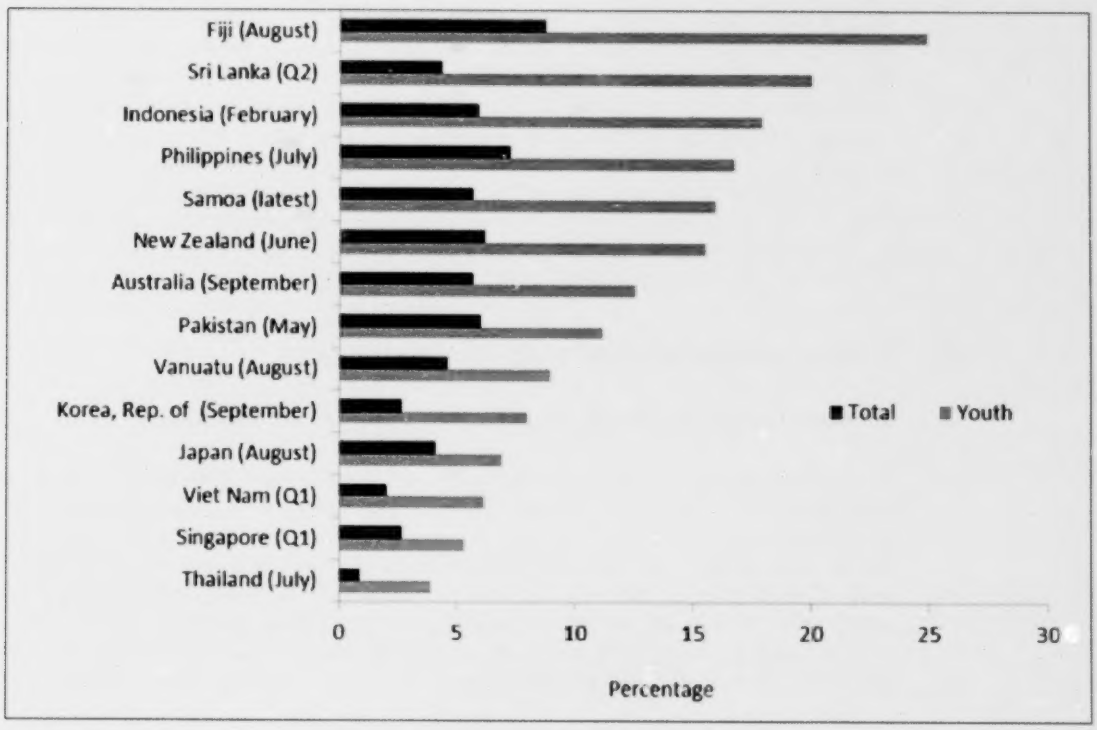
[4] World Bank, "Land and Food Security" (2012).

The number of working poor, those who earn less than $2 a day, is highest in South and South-West Asia. The prevalence of working poverty and vulnerable employment is a clear manifestation of the lack of economic and social opportunities.

29. Young people, in particular, struggle to find decent and productive employment (see figure I below). The youth unemployment rate in the region is almost three times the adult unemployment rate. There are numerous causes for the high youth unemployment rate in the region. In addition to the lack of adequate decent and productive jobs, this is also an outcome of the mismatch between education and employers' requirements, low secondary school completion rates, gender discrimination and high youth aspirations. Many countries now have a potential demographic dividend. Yet, to make the dividend a reality, they will need to secure productive employment for the growing pool of young people, especially young women.

Figure I

Total and youth unemployment rates in selected Asia-Pacific economies, 2013 or latest available data



Sources: Economic and Social Commission for Asia and the Pacific (ESCAP), based on data from the International Labour Organization and estimates from national labour force surveys. Pacific economies information obtained from the secretariat of the Pacific Community.

Note: Total includes ages 15 and above; youth includes ages 15 to 24, except Pakistan (ages 15 to 19) and Singapore (residents aged 15 to 29); non-seasonally adjusted.

Abbreviations: Q1, first quarter; Q2, second quarter.

B. Inequality hampering sustainability of growth

30. Inequality is another key socioeconomic challenge for the region. At the regional level, income inequality (Gini index) increased from 33.5 in the 1990s to 37.5 in 2010. At the national level, there has been an increase in the Gini index in many major economies in recent decades. A specific area of concern is gender inequality. Intrinsically linked to gender inequality is the prevalence of gender-based violence in the region. These challenges continue to inhibit the full participation of women in public life, affecting not only the well-being of women themselves but also that of their families and their communities, and can weaken social and economic stability.

31. High levels of income inequality seriously undermine the economic and social achievements. For example, GDP per capita for many economies in the region declines significantly when adjusted for income inequality. The ESCAP social development index,[5] which combines education and life expectancy, shows that inequality in several emerging and low-income economies is also having a serious impact on social development.

32. ESCAP analysis of country-level household debt and inequality data, drawn from 81 developing countries globally including 26 economies in the region, and covering the post-crisis period, shows a positive association between inequality and household indebtedness. This finding conforms with recent research at the International Monetary Fund (IMF).[6] With income growth lagging, the poorer sections of society increase debt-financed consumption, made possible by the availability of credit as higher-income groups deposit their increasing wealth in the banking system. Such a transmission process could lead to ever-rising household debt in countries with growing inequality, making them vulnerable to shocks. As households spend more than they earn, countries increasingly face growing current account deficits, exacerbated by luxury imports by higher-income groups.

IV. Policy options to deal with the challenges

A. Productive government spending to support sustainable growth

33. The obstacles to higher growth in the Asia-Pacific region are partly related to slow economic recovery in the developed world, but also to long-term structural impediments to growth. This highlights the need for productive and countercyclical government macroeconomic support. Such policies can support growth in the short term while helping to remove structural impediments in the long term. The ongoing reallocation of international capital away from the region as monetary policy in the United States is normalized will also increase the need for supportive policies for domestic investment. Some possible supportive measures are highlighted below.

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[5] See *Economic and Social Survey of Asia and the Pacific 2012* (United Nations publication, Sales No. E.12.II.F.9).

[6] See Michael Kumhof and Romain Rancière, "Unequal = Indebted", *Finance & Development*, vol. 48, No. 3 (Washington, D.C., IMF, September 2011).

Social protection spending

34. Increasing spending on social protection would help to support growth as well as reduce inequality. Recognizing the importance and necessity of adequate social protection systems, in April 2009 the United Nations System Chief Executives Board for Coordination adopted, the Social Protection Floor Initiative, which was endorsed by the Member States at the United Nations Conference on Sustainable Development. Social protection is now a development priority in the post-2015 development agenda.[7]

35. Several countries in the region have recently initiated policies and programmes to enhance social welfare. There is a significant positive correlation between the extent of coverage of these policy measures and reductions in inequality as shown in the *Survey* 2013. Based on World Bank data,[8] ESCAP finds that within a universal system, targeted social protection and labour market programmes are likely to reduce inequality. ESCAP has designed a social protection "toolbox" to facilitate policymakers in their endeavours to build stronger and more robust social protection systems.[9] It enables policymakers to identify gaps at the national level, while providing useful examples on how to move forward.

36. An important challenge to increasing the coverage and depth of social protection measures will be their sustainable financing. Critically, the design of social protection measures will need to address growing budgetary demands owing to the ageing structure of populations. The private sector must also contribute and partner with Governments. Some global and regional funds could be established by using innovative sources of financing. The 2013 ESCAP theme study proposed regional initiatives in that regard.

Infrastructure spending

37. Governments need to address the significant shortage in infrastructure provision across the region. Apart from current needs, the demand for infrastructure is projected to increase significantly with growing populations and greater urbanization. An ESCAP study in 2006 estimated the infrastructure financing gaps in the Asia-Pacific region to be in the order of $600 billion per annum.[10] A more recent study by the Asian Development Bank (ADB) in 2009 put the figure at $800 billion per annum over the period from 2010 to 2020.[11] The private sector acting alone is not coming close to meeting this requirement, with annual spending on infrastructure in the past 20 years averaging $13 billion and being concentrated in less risky investments.

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[7] United Nations (United Nations System Task Team on the Post-2015 United Nations Development Agenda), "Social protection: A development priority in the post-2015 United Nations development agenda: Thematic Think Piece" (2012).

[8] World Bank, "The Atlas of Social Protection — Indicators of Resilience and Equity", ASPIRE Database, 2014.

[9] The toolbox provides access to a database of over 80 good practices in social protection from developing countries. For details see www.socialprotection-toolbox.org/.

[10] See ESCAP, *Enhancing Regional Cooperation in Infrastructure Development Including That Related To Disaster Management* (United Nations publication, Sales No. E.06.II.F.13).

[11] Asian Development Bank and Asian Development Bank Institute, *Infrastructure for a Seamless Asia* (Tokyo, 2009).

38. Existing forms of infrastructure investment in the region could be complemented with a new large-scale lending facility for infrastructure that taps public resources. Such a regional institution could issue securities to enable the region's central banks to park their surplus reserves with it. The infrastructure financing facility could help to coordinate other sources of lending such as multilateral and bilateral development agencies and private financial institutions. Its backing for infrastructure projects could also signal opportunities to private investors. As a regional mechanism, the facility could also be in a position to keep track of intraregional spillovers and finance economically significant cross-border projects. Another possible function of the facility could be to provide advisory services and technical assistance in the financial design of infrastructure projects.

39. Apart from shortfalls in financing, it is clear that significant improvement is required in legal and regulatory frameworks for infrastructure investment across much of the region. Recent years have seen a lack of clarity in such frameworks; this has been a significant factor in the worsening of investment climates and resulting reduction in new projects in many countries of the region. Without improvements in regulatory frameworks and policy certainty, even in the presence of adequate financing, investors will remain wary of entering into major investments. Political instability also discourages private sector investment in large infrastructure.

Environment-related spending

40. Governments will need to undertake spending to address environmental factors which will otherwise hamper growth prospects. Environmental damage is already constraining growth in the region. For example, environmental degradation was estimated in 2012 to cost India almost 6 per cent of GDP annually.[12] Economic potential has also been impacted by widespread loss of natural ecosystems and biodiversity.

41. Policies are also required to improve access to modern energy sources. Using such sources can make growth more sustainable and will contribute to increased growth by making households more productive. In order to improve access to modern energy, several countries have formulated investment strategies for energy infrastructure aimed at improving energy efficiency and increasing the use of renewable sources.

42. Another area for action to ensure the sustainability of growth is better addressing climate change through improving climate finance. Sources of climate finance should be mobilized from both the public and private sectors. Public finance can focus on leveraging private funding to tackle climate challenges. Specifically, climate finance mechanisms should be mainstreamed into the evolving financing framework in the context of the post-2015 development agenda.

B. Investment in youth

43. The region is facing the enormous challenge of securing productive and decent employment for the largest generation of young people in history. This is crucial for

[12] World Bank, "Diagnostic Assessment of Select Environmental Challenges in India", Report No. 70004 (2013).

reaping a demographic dividend. While some of the problems are caused by a lack of adequate decent and productive jobs, many young people are entering the labour force with skills that are limited or do not match the changing demands of labour markets.

44. Governments need to address the way in which young people develop from an early age and help to prepare them for work with adequate knowledge, skills and experience. In that context, the transition between secondary and tertiary education needs to take into account the capacities and potential of young people. Active labour market programmes will also be important to effectively link education, training and skills development systems with the requirements of employers. The challenge of increasing access to education is especially great for low-income economies, where the probability of obtaining tertiary level education is low.

45. Improving education systems will have to pay special attention to gender inequalities. Although gender inequalities in education in the region have fallen over recent years, there are still disparities that translate into untapped productive potential for both medium- and long-term growth. The South and South-West Asian subregion is lagging, with 8 girls for every 10 boys enrolled in secondary education, but an even greater concern is that only three women for every four men are enrolled in tertiary education. There are many barriers to female education, including the burden of household work, limited appreciation of the benefits of educating girls and women, and negative social and cultural attitudes. Addressing such prejudices will require greater investment in the recruitment of women teachers and targeted support for poor families in order to render educational establishments more women-friendly.

C. Mitigating risks from capital volatility

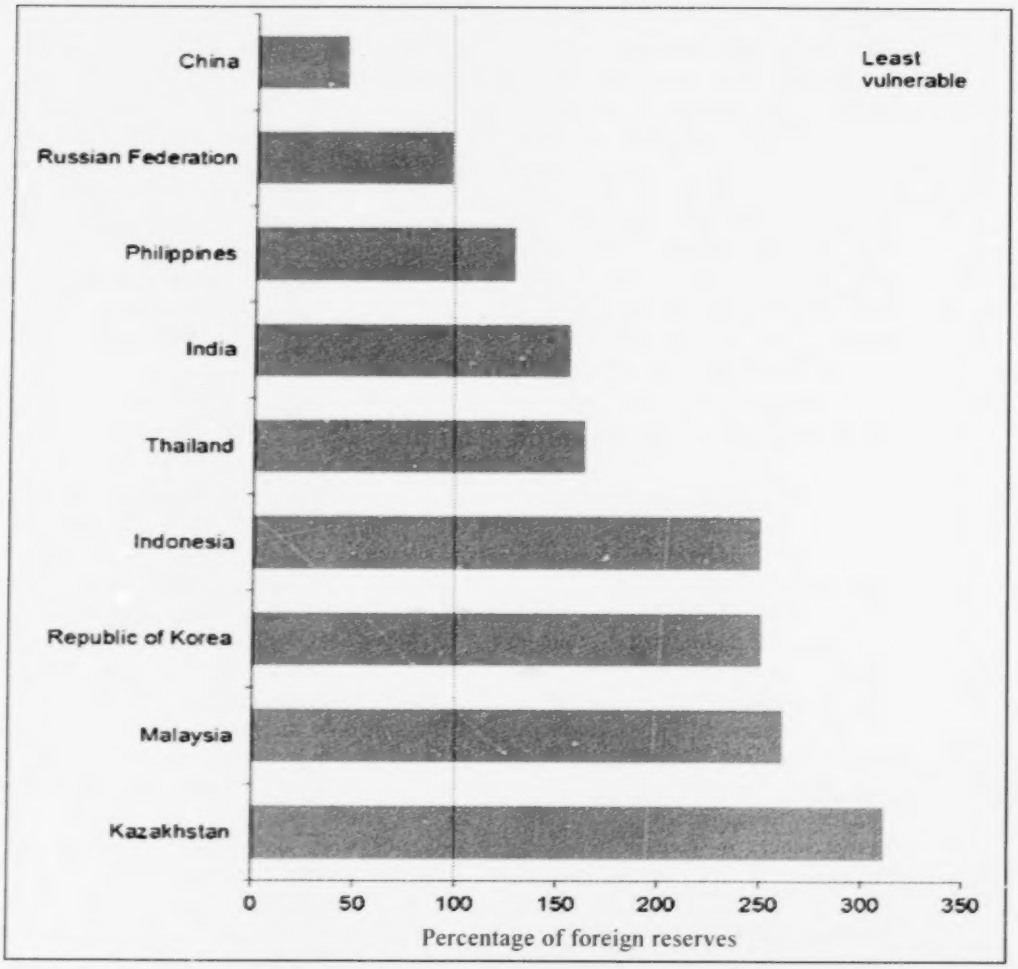
46. Economies in the region have managed the impact on their exchange rates of capital flow volatility by a combination of approaches, namely, allowing for depreciation, using foreign exchange reserves and raising interest rates. Turkey allowed its currency to fall vis-à-vis the dollar by 7 per cent in January 2014. In the period from June to August 2013, the largest depreciations were seen in India (13 per cent), followed by Indonesia, Malaysia, the Philippines, Thailand and Turkey (all between 6 per cent to 9 per cent). To prevent excessive depreciation, countries managed the extent of currency falls by spending some of their foreign exchange reserves. India, Indonesia and Thailand saw the largest declines in their foreign exchange reserves, having used between $11.5 billion and $19.3 billion during the period from January to August 2013. Another policy used by some countries to manage depreciations was to raise interest rates and thus increase the attractiveness of their currencies. Interest rates were also raised to manage the inflationary impact of depreciation on domestic prices. In January 2014, Turkey sharply raised its overnight lending rate from 7.75 per cent to 12 per cent, while India increased its repo rate by 25 basis points to 8 per cent. During the earlier period of capital outflows (second half of 2013), Indonesia increased its reference rate between May and November 2013 from 5.8 per cent to 7.5 per cent.

47. Countries should be vigilant about holding sufficient foreign exchange reserves to help to defend against excessive currency depreciation resulting from capital flow volatility. The build-up of reserves has been one of the main tools of

Governments to protect their currencies and prevent the macroeconomic instability resulting from sharp exchange rate depreciation. The ESCAP vulnerability yardstick considers the level of short-term foreign exchange commitments, comprising portfolio flows, short-term debt and a number of months of imports, as a percentage of foreign reserves. It indicates that some economies in the region may have insufficient foreign exchange reserves to cover the exit of foreign funds from their financial markets and hence face risks of excessive exchange rate depreciation (see figure II below).

Figure II

Vulnerability yardstick as a percentage of foreign reserves in selected Asia-Pacific economies, latest available data



Source: ESCAP, based on data from CEIC Data. Available from www.ceicdata.com/ (accessed 20 February 2014).

Note: The vulnerability yardstick is the sum of short-term external debt, latest quarterly imports based on four-quarter moving average and estimated international portfolio investment position.

48. Concerns about the lack of sufficient reserves at the national level to respond to the risks from capital flow volatility have highlighted the need for greater regional support. Currency-related difficulties in various countries in 2013 highlighted the lack of use of current regional schemes such as the Chiang Mai Initiative Multilateralization. In recent instances, when countries have needed currency support, even those within ASEAN plus China, Japan and the Republic of Korea (ASEAN+3) have looked to ad hoc regional sources of funds through numerous bilateral swap agreements. An alternative to current arrangements could be a comprehensive Asia-Pacific financial support mechanism using some of the sizeable foreign reserves available to the region's Governments. Such a mechanism is important even for countries that are currently covered by regional agreements, since currency crises in non-protected countries can cause contagion in an interconnected region.

49. While the use of foreign exchange reserves can stabilize currencies after pressure is experienced, they may be complemented by national measures for capital flow management. The use of foreign reserves does not deal with the negative impact on asset markets of any sudden outflow. Therefore, as highlighted by IMF studies,[13] an important additional supportive measure could be to apply capital flow management at the national level to deal with inflow/outflows surges in asset markets. Such measures have been gaining in popularity, as recommended by ESCAP over a number of years. Some recent capital account management measures have been market-based, such as through taxes or levies on particular instruments. Others have been quantitative, such as through caps or prohibitions on purchases of particular instruments. Furthermore, while most measures have been directed at capital inflows or purchases, some have also been targeted at discouraging capital outflows or sales. A general guideline should be for such regulations to be a component of long-run policies to prevent economic booms and busts.

V. Domestic resource mobilization: options for expanding fiscal space

50. In order to adequately fund the development needs of the region, domestic resource mobilization will need to play an important role. There is a particular need to expand fiscal space, given large fiscal deficits in many countries.

51. Governments have a range of options for creating fiscal space. These include increased levels of borrowing, making existing expenditure more efficient, reprioritizing expenditure to orient it more towards development, or increasing tax and non-tax revenues. Expanding indebtedness can be risky, even where levels of debt are relatively low. For one, future debt servicing represents a drain on resources. Net interest payments already consume a quarter of total revenue in India, a third in Pakistan and a fifth in the Philippines. Other risks from borrowing include a potential rise in interest rates and maturity mismatches. Higher levels of foreign-denominated debt can also constrain countercyclical macroeconomic policy.

52. Governments can, of course, create fiscal space by making better use of existing resources. One way would be to reduce expenditure on non-priority areas. A

[13] See IMF, "Liberalizing Capital Flows and Managing Outflows" (2012); IMF, "The Liberalization and Management of Capital Flows: An Institutional View" (2012).

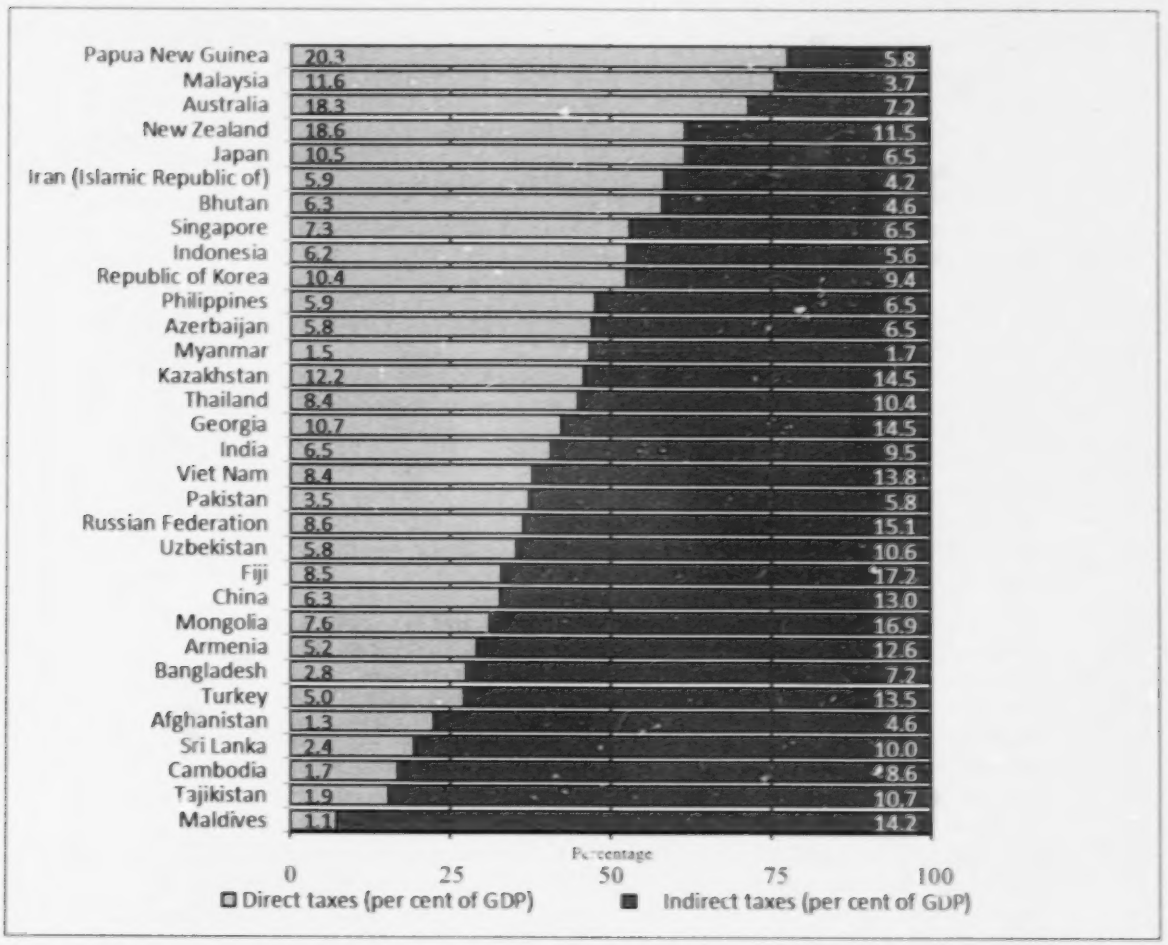
target for cuts would be defence expenditure, which in several countries exceeds expenditure on health and education combined and makes little if any contribution to development. Another option would be to reduce various kinds of poorly targeted consumption subsidies, which in many countries account for a significant proportion of total public expenditure.

53. Primarily, Governments need to raise more revenue, especially from taxes. Tax collection in Asia-Pacific developing countries is neither sufficient nor equitable. Experience across the region demonstrates numerous opportunities for improving all forms of taxation, direct and indirect, whether for corporations or individuals. In fact, many countries have been able to strengthen tax revenues over the past decade.

54. Tax collection by central governments in developing Asia-Pacific countries averaged only 14.8 per cent of GDP in 2011, compared with 17.1 per cent of GDP in Latin America and the Caribbean and 16.3 per cent in sub-Saharan Africa. Only seven countries (of which four were resource-rich) collected tax revenues of more than 20 per cent of GDP in 2011, while in several others, tax-to-GDP ratios were in the single digits. This is far from the 25 per cent to 35 per cent of GDP that is considered one of the prerequisites for being able to provide the necessary financing and expenditure to become a developed country.

55. The composition of tax revenues matters as much as the level of revenues. Indirect taxes are the largest source of tax revenue in more than half of all countries in the region (see figure III below). However, their contribution to total tax revenue has been declining in most countries. A substantial component of indirect taxes in the region, particularly in the Pacific, is on international trade. To encourage trade, many economies have in recent years reduced trade taxes and focused attention on taxes on goods and services, such as value added taxes (VAT) or general sales taxes (GST). However, although revenues from VAT or GST have on average risen from less than a fifth of indirect taxes to around one half since 1990, they have not been able to offset the fall in revenues from taxes on trade in many countries (for example, Malaysia, Pakistan and Vanuatu).

Figure III
Share of direct and indirect taxes in tax revenue and tax revenues as per cent of GDP, 2011



Source: ESCAP calculations based upon IMF government finance statistics, accessed November 2013, and official data sources.
Note: Data are for 2011 except for Myanmar and Tajikistan (2004); Afghanistan (2007); Bhutan and Islamic Republic of Iran (2009); Cambodia, China and Maldives (2010).

56. Over the past two decades, about two thirds of the countries with available data have seen increases in direct tax revenues, comprising taxes on income, profits and capital gains, payrolls and property income. For instance, in Bhutan, India, Malaysia and Pakistan, the share of direct taxation in overall tax revenues has increased by approximately a quarter. This shift is generally desirable since indirect taxes affect prices and thus influence resource reallocation. Moreover, growth in indirect taxes, especially GST, always falls behind growth in income or GDP, since usually expenditure grows at a slower rate than income. As a result, GST needs periodic upward adjustments both for the rate and coverage. This not only makes the tax system more regressive, but also encourages tax evasion or cash economy. On

the other hand, direct taxes are more equitable since they can be progressive, with higher rates at higher levels of income.

57. Yet, in most countries less than half of tax revenues are raised directly. Moreover, increases in revenue from direct taxes often have been relatively small. One reason is that in many countries, personal income tax revenues are low, especially where a large proportion of the labour force is active in the informal sector or in agriculture. However, even wealthier individuals in many countries may pay little income tax as a result of tax avoidance and non-compliance. In several countries, less than 1 per cent of the population pays income tax.

A. Monitoring tax revenues

58. Governments need to be able to monitor their tax systems closely. One measure is "tax buoyancy", which captures the responsiveness of tax revenues to changes in output without distinguishing between discretionary and automatic growth in revenue. Between 2007 and 2012, tax buoyancy was mixed. It was greater than 1 in 12 out of 20 countries with data, indicating that in those countries, tax revenues increased at a higher rate than output. Among them, all four least developed countries (Bangladesh, Bhutan, Lao People's Democratic Republic and Nepal) had buoyancy coefficients greater than 1.5. As tax-to-GDP ratios are less than 15 per cent in those countries, higher buoyancies augur well for the future since tax-to-GDP ratios will increase as levels of output grow.

59. Most countries in the region are currently collecting tax revenues below their potential. Clearly, a country's ability to raise taxes will depend on many factors — structural, developmental, institutional and socioeconomic.[14] When judging a country's capacity for raising more tax, it is important to allow for such factors. Analysis that takes structural factors such as income per capita, the share of agriculture in output and the openness of the economy into account shows that the tax potential can be quite significant. In several countries, the gap between actual revenues collected and the level that would be appropriate given the economy's structure is equivalent to 5 per cent of GDP or more (see table below). By embracing their tax potential and closing existing tax gaps, the economies of Afghanistan, Bangladesh, Bhutan, the Islamic Republic of Iran and Hong Kong, China would be able to raise their tax revenues by over 70 per cent.

Estimated tax potential in selected Asian economies

		Tax-to-GDP ratio			
Countries	*Year*	*Actual*	*Potential*	*Tax gap*	*Tax gap as proportion of current tax revenue*
Afghanistan	2011	8.8	15.0	6.2	70.5
Azerbaijan	2012	12.9	15.1	2.1	16.6
Bangladesh	2013	10.5	18.0	7.5	72.1
Bhutan	2009	9.2	16.0	6.7	72.9

[14] See Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice* (New York, McGraw-Hill, 1989).

Countries	Year	Tax-to-GDP ratio		Tax gap	Tax gap as proportion of current tax revenue
		Actual	Potential		
Cambodia	2011	10.0	13.0	3.0	30.4
China	2012	19.4	21.2	1.8	9.4
Hong Kong, China	2011	14.2	26.7	12.5	88.1
Indonesia	2012	11.9	16.6	4.7	39.3
Iran, Islamic Republic of	2013	5.8	13.1	7.2	124.5
Japan	2012	17.0	19.3	2.2	13.1
Malaysia	2012	16.1	17.4	1.3	7.9
Maldives	2010	10.7	16.5	5.8	54.2
Nepal	2013	15.2	16.1	0.9	5.6
Pakistan	2012	10.3	12.1	1.8	17.3
Philippines	2012	12.9	14.3	1.5	11.4
Singapore	2011	13.8	20.7	6.9	50.3
Thailand	2011	18.8	19.0	0.2	0.9

Source: ESCAP calculations.

Note: The tax gap is calculated by taking the difference between the estimated tax potential and the actual tax-to-GDP ratio for a given country in the year with most recent data. Only countries with a positive tax gap are listed in the table.

60. One of the reasons for low tax revenues in the region may be relatively low tax rates. For instance, at 28.2 per cent in 2013, the average corporate tax rate in the region was somewhat lower in 2013 compared with Latin America (32.2 per cent) and Africa (29.8 per cent). Corporate tax rates are often low because countries have reduced taxes competitively in order to attract FDI. Thus, over the past seven years, two thirds of a sample of 24 countries from the region reduced their corporate tax rates. Countries with large reductions include China, from 33 per cent to 25 per cent; Sri Lanka from 32.5 per cent to 28 per cent; and Thailand, from 30 per cent to 20 per cent. However, the impacts of these reductions on FDI are not clear. If foreign investors can offer something extra compared with domestic investors, it may be useful to offer them special incentives.[15] If this is not the case, preferential tax treatment distorts competition and puts local companies at a disadvantage.

61. Many countries are not using their tax potential to the fullest extent. This is due to the liberal use of exemptions and concessions, which are also reducing the scope for tax progressivity in the region. Tax exemptions and allowances can, for instance, take the form of tax holidays, reduced corporate income tax rates, investment tax allowances and partial profit exemptions to reduce the cost of capital. At the individual level, they include tax deductions and credits for a wide range of items. Many countries also set lower tariffs on imports than their most favoured nation rate would allow. This reduces custom and import duties. Also, tax

[15] See Magnus Blomström, Ari Kokko and Jean-Louis Mucchielli, "The Economics of Foreign Direct Investment Incentives", National Bureau of Economic Research Working Paper No. 9489 (Heidelberg, Germany, Springer, 2003).

exemptions and difficulties in implementing VAT/sales taxes contribute to lower tax revenues.

62. Tax concessions can be useful, especially if they lead to higher investment or higher growth. The revenues foregone ("tax expenditures") owing to these deductions and allowances can be significant. In Georgia, the Philippines and Tajikistan, tax expenditure in corporate income tax reaches 0.5 per cent of GDP or more. Tax expenditures in customs duties reach more than 1 per cent of GDP in Pakistan and the Philippines and more than 8 per cent of GDP in China.

B. Policy options to enhance tax revenues

63. Countries with untapped tax potential could enhance tax revenues in a number of ways, such as broadening tax bases and rationalizing tax rates, tackling tax evasion and tax fraud, making tax administrations more effective and transparent, carefully sequencing reforms of tax policy and tax administration and strengthening regional cooperation.

64. Governments could take a number of measures to rationalize and extend their tax systems to have larger tax bases with relatively low tax rates that do not create distortions in the allocation of resources. Countries should review their indirect taxes and retain only exemptions or concessions that are achieving their stated objectives. GST and VAT systems should be made simpler. This would also entail extending these taxes to sectors that are currently exempt. There is also a case for expanding the base for customs duties to the import of services, as has already been done in some countries.

65. Revenues from direct taxes should be strengthened by implementing mechanisms for taxing capital gains in securities or property more widely. Also, appropriate mechanisms must be developed to apportion domestic and foreign operations of multinational corporations properly so that there is no loss of tax revenues, especially in the presence of treaties for avoidance of double taxation. This also includes harmonizing income tax rates so that ideally the rate is the same for companies and high-income individuals to preserve tax progressivity and prevent income shifting to reduce tax liabilities.

66. Tackling tax evasion and tax fraud is a priority, especially considering that for the period from 2001 to 2010, illicit capital outflows from developing countries globally reached up to $5.9 trillion, for which the region accounted for more than 61 per cent. To deal with tax evasion and non-compliance, countries could introduce minimum taxes on companies and associations of persons. They could address evasion of personal income tax through withholding or advance taxes and could enhance VAT revenues by increasing incentives for compliance through simpler procedures and faster processing of refund claims. In addition, they should consider the creation of special tax courts to tackle tax evasion and tax fraud.

67. Making a tax system equitable and efficient will require a tax administration that is free from corruption, political interference and pressure from vested interests. In many countries, a careful sequencing of reforms to tax policy and to tax administration is needed. In the first phase of reform of tax administrations, human capacity must be expanded and administrations should be organized along functional lines where, for instance, a single department is responsible for

processing returns and payments, another for audits and investigations and yet another for enforcing collections. Also, information technology systems should be integrated. In a second phase, tax bases should be broadened by detecting new taxpayers and providing greater incentives for compliance. Lastly, tax assessments should be based on collateral evidence collected across government departments and compliance could be strengthened further by reducing the multiplicity of taxes.

68. Reforming tax policy requires Governments to broaden tax bases by expanding upon withholding taxes and advance tax regimes and by reducing exemptions and concessions. Also, VAT should be expanded to cover both goods and services, maintaining measures to offset the disproportionate impact on low-income persons. Tax rates should then be rationalized to reduce distortions and remove any existing tax anomalies. Lastly, legislation should be strengthened to regulate transfer pricing and to determine global incomes liable for taxation.

69. Greater regional cooperation can play an important role in mobilizing tax revenues. While competition for FDI is leading to a "race to the bottom" in terms of taxation of profits of multinational companies, tax harmonization among countries, especially those belonging to regional associations such as the South Asian Association for Regional Cooperation or ASEAN, may foster revenues. Effective regional cooperation can be used to help to avoid double taxation, to combat transfer pricing by multinational corporations and to deal with tax havens.

70. Given the evidence of the status of tax collection in the region, there is a strong case for establishing an Asian tax forum, under the aegis of ESCAP. Such a forum could monitor the tax legislation of member countries and publish a regular review of tax reforms. It could also act as a repository of tax laws, hold seminars and workshops on emerging tax-related issues and share best practices in tax policies, tax administration and tax reforms.

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Regional cooperation

Latin America and the Caribbean: economic situation and outlook 2013-2014

Note by the secretariat**

Summary

The present report updates the analysis set out in the *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2013,*** issued by the Economic Commission for Latin America and the Caribbean in December 2013, on the basis of official data published by the countries in the region in the subsequent months, and presents a revised economic outlook for 2014. In addition, it examines the external factors influencing the region's performance and their impact on the different components of the balance of payments and summarizes the challenges and main trends in relation to monetary, exchange-rate and fiscal policy. It confirms the deceleration of growth analysed in the *Preliminary Overview*, giving a revised regional rate of 2.5 per cent for 2013. This slowdown curbed job creation, but did not drive up the rate of unemployment. The second part of the report reviews the main internal and external factors that will determine the region's economic performance in 2014. Although the world economy is expected to pick up with respect to 2013, Latin America and the Caribbean will grow at a rate similar to that of the previous year, as a result of several factors.

* E/2014/1/Rev.1, annex II.

** The late submission of the present document is due to the non-availability of 2014 data by the deadline for submission of documents to Conference Services.

*** United Nations publication, Sales No. E.14.II.G.2.

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I. Overview of the economies of Latin America and the Caribbean, 2013

Global economic growth slowed further and financial markets were volatile

1. In 2013 the pace of growth in the world economy fell yet further, to 2.1 per cent, reflecting the slower pace of expansion in the developed countries in particular. Underlying this continued slowdown were the ongoing processes of fiscal consolidation in these countries following the global financial crisis of 2008/09, which sapped domestic demand and weakened imports from developing countries. This situation was further complicated by specific difficulties in some large emerging economies — China and India in particular — whose growth had already begun to decline in 2012 compared with the high rates recorded in previous years.

2. However, the region's external environment changed significantly over 2013. Several eurozone economies continued to slow during the first half of the year, but in the second half there were signs that their downward slide was coming to an end and some began to recover from a lengthy recession. At the same time, the recovery of the economy of the United States of America showed signs of increasing strength in the second half of the year. This led to a pronounced shift in expectations regarding the course of economic policy in these countries, especially the monetary policy of the United States, which had hitherto been heavily expansionary. On the back of improvements in unemployment and economic indicators, the United States authorities announced a gradual withdrawal of monetary stimulus. After an initial overreaction by financial markets, this situation prompted a spike in yields on United States financial assets and a readjustment in investment portfolios, causing financial outflows from emerging economies and downward pressure on their currencies.

Table 1
Selected regions and countries: gross domestic product (GDP) growth, 2007-2013
(Percentages)

	2007-2010	*2011*	*2012*	*2013*
World	**1.8**	**2.8**	**2.4**	**2.1**
Developed countries	0.3	1.5	1.3	1.0
United States	0.3	1.8	2.8	1.6
Japan	0.0	-0.6	1.9	1.9
Eurozone	0.2	1.6	-0.7	-0.5
Developing countries	5.9	5.9	4.7	4.6
China	10.8	9.3	7.7	7.7
India	8.1	7.3	5.1	4.8
Russian Federation	2.4	4.3	3.4	1.5

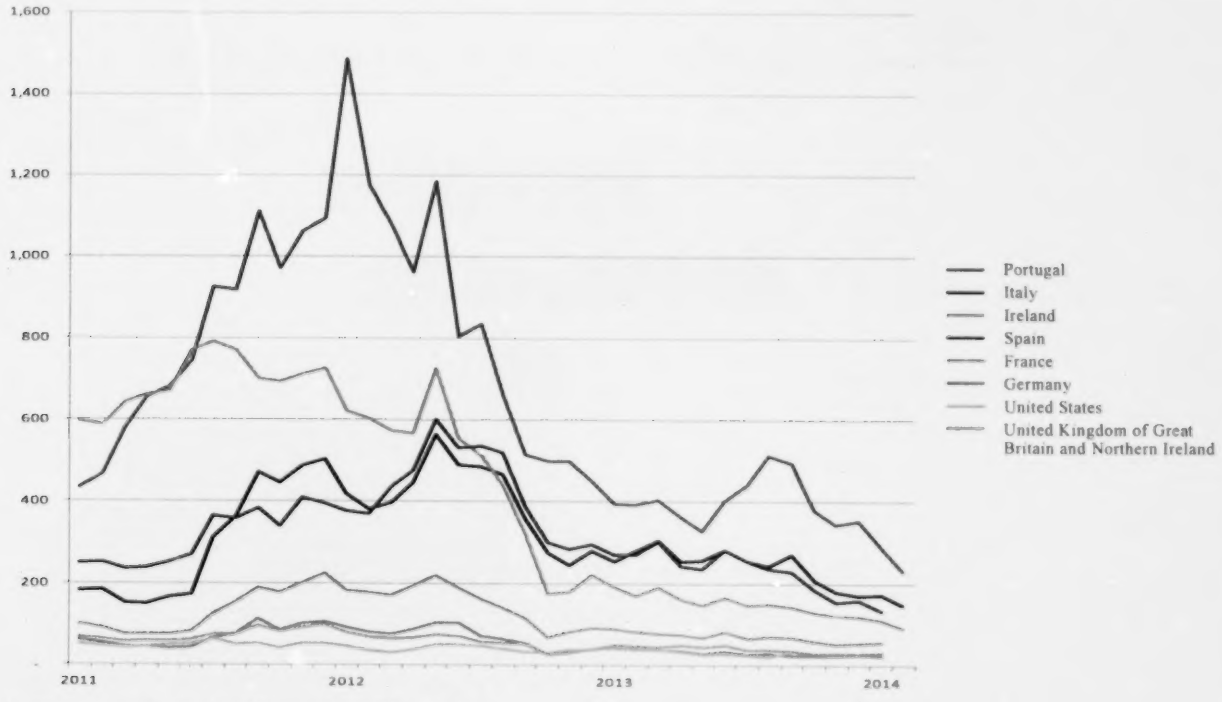
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from *World Economic Situation and Prospects 2014* (United Nations publication, Sales No. E.14.II.C.2).

3. This picture of lean world growth and expectations of interest rate hikes in international markets, combined with fears (as yet unrealized) of a sharper slowdown in the Chinese economy and signs of oversupply in certain markets, pushed down international commodity prices. The exceptions were energy prices, which, on average, remained unchanged, partly owing to interruptions in supply. Thus, the price of agricultural products fell by an annual average of 7.2 per cent, fertilizers by 17.4 per cent and minerals and metals by 5.5 per cent.[1]

4. At the same time, following the changes in monetary policy in the eurozone in mid-2012, risk indicators continued to trend downward throughout 2013, as they have done thus far in 2014, strengthened by signs of recovery, which has produced gradual convergence towards lower levels of risk in the financial markets (see figure I).

Figure I
United States and Europe (selected countries): risk premiums on credit default swaps, 2011-2014

(Basis points)



Source: ECLAC, on the basis of figures from Bloomberg.

[1] World Bank, Commodities Price Data, 5 March 2014.

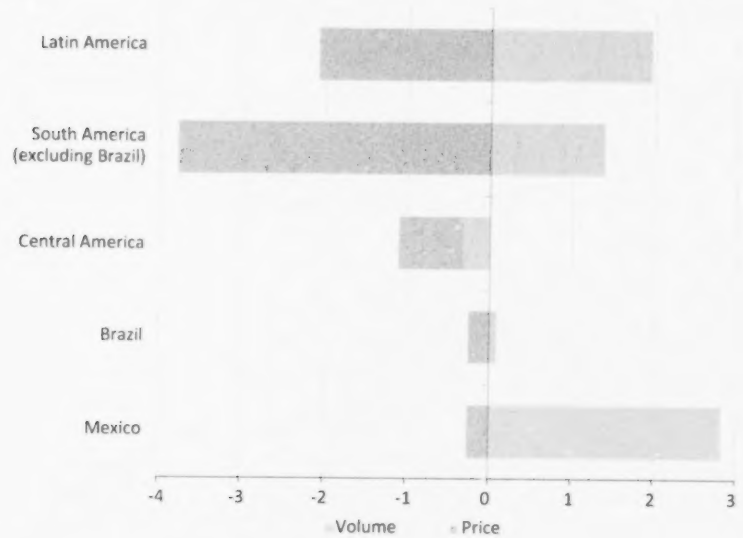
The worsening trade balance widened the current account deficit

5. Lower growth worldwide resulted in a drop in external demand for the region's products. The impact of these factors was even greater than projected in the 2013 edition of the *Preliminary Overview*. The value of the region's exports stagnated as a result of the downtrend in the prices of various export commodities, which was mitigated by slightly higher export volumes. However, export patterns varied substantially between subregions, with a considerable drop of 2.4 per cent in the value exported from South America (excluding Brazil) and a relatively hefty rise of 2.6 per cent from Mexico (see annex, table A-1).

6. Overall, import prices in the region held steady and the 2.7 per cent increase in volume therefore led to an equivalent rise in value. For the region as a whole, stable import prices combined with lower export prices caused a 1.8 per cent decline in the terms of trade.

7. As a result of the variations in the volume and price components of external trade in goods, the surplus on the goods balance fell from 0.9 per cent of GDP in 2012 to 0.3 per cent in 2013 (see figure II).

Figure II
Latin America: estimated variation in export values, by volume and price, 2013
(Percentages)



Source: ECLAC, on the basis of official figures.

8. The deficit on the services balance widened slightly from 1.3 per cent to 1.4 per cent of GDP in 2013. One contributing factor was the slight fall-off in tourism for the region as a whole compared with the previous year. In particular, tourist arrivals in Central America and the Caribbean increased at a slower pace, while the number of foreign tourists in Mexico began to pick up again in the second half of 2013.

9. The income balance deteriorated slightly in 2013 to yield a deficit of 2.5 per cent of GDP for the region overall, owing mainly to larger outflows — made up principally of profit remittances by foreign companies — from Mexico (up 16.2 per cent) and Brazil (up 7.6 per cent).

10. Current transfers, which consist principally of remittances from workers abroad, fell slightly and ended the year at 1.0 per cent of GDP. However, between 2012 and 2013 patterns in remittances varied among the countries. In general, the countries receiving remittances mainly from Spain and Italy recorded a fall (except the Plurinational State of Bolivia) as the difficult employment situation continued unabated in southern Europe. By contrast, the countries with a large workforce in the United States saw a rise in remittances (except Mexico).

11. As a result of the changes in its various components, the current account deficit widened from 1.8 per cent of regional GDP in 2012 to 2.6 per cent of GDP in 2013, slightly more than forecast in the *Preliminary Overview*.

The current account deficit was financed mostly with foreign direct investment, but changes in international financial markets reduced capital flows

12. The current account deficit was financed principally by foreign direct investment (FDI). Net inflows of FDI were up by 19 per cent in 2013, as, despite slowing somewhat, Latin American economies were still growing faster than the developed countries and thus continued to draw investment aimed at the domestic market. This higher level of investment was not evenly spread, however, with much of it going to Mexico. Indeed, net foreign investment flows to the region excluding Mexico were down slightly on 2012.

13. External bond issues remained buoyant, spurred by international interest rates that remained at historic lows. Overall, sovereign risk indices remained fairly stable in 2013. Of the relatively higher-risk countries, risk indices increased sharply for the Bolivarian Republic of Venezuela but dropped for Belize and Ecuador (see annex, table A-2).

14. The sum of net inflows of FDI and portfolio investment was equivalent to about 4 per cent of GDP, slightly higher than the previous year.

15. By contrast, net outflows of the more volatile components of external financing increased substantially as global yields rose on external financial assets in response to the shift in expectations regarding United States monetary policy.

In terms of monetary policy, the challenges arising from the change in the external context led to varied reactions

16. Against this backdrop, the challenges addressed by monetary and exchange-rate policy during the first two quarters of 2013 were further compounded at the end of the year. Authorities tried, on the one hand, to avoid a further cooling of aggregate domestic demand and, on the other, to keep inflation expectations securely anchored. Several countries were also forced to take action to mitigate the adverse effects of exchange-rate fluctuations in the course of the year. The policy

measures taken to address these challenges are outlined below, grouped by the main instruments used.

17. Table 2 summarizes the movements in monetary policy rates in the economies that use inflation-targeting schemes. In 2013, five out of nine countries lowered their monetary policy rate and three raised it. In Guatemala, the rate remained unchanged over the year as a whole after a 25-basis-point increase applied in May 2013 was subsequently reversed in November 2013 (see annex, table A-4).

Table 2
Latin America (selected countries): cumulative variation in monetary policy rates, 2013
(Basis points)

	Increase	*Decrease*	*Change in direction*
Brazil	275		
Chile		50	
Colombia		125	
Costa Rica		100	
Guatemala			+25/-25
Mexico		100	
Paraguay	50		
Peru		25	
Dominican Republic	125		

Source: ECLAC, on the basis of official figures.

18. In the economies that use monetary aggregates as the main monetary policy instrument, growth in the money supply tended to slow in 2013, especially in the dollarized economies and in the English-speaking Caribbean, while the economies of South America and Central America saw rapid growth of monetary aggregates (see annex, table A-3).

19. Owing to these variations in the main monetary policy instruments, interest rates and aggregates, total credit grew fairly steadily, but this growth slowed slightly towards the end of 2013. Credit to the public sector increased across the region, and expanded by more than 70 per cent in Suriname and the Bolivarian Republic of Venezuela between the fourth quarters of 2012 and 2013.

In many countries, currency appreciation was reversed

20. As the prospect of a shift in United States monetary policy looked increasingly certain towards the end of 2013, nominal exchange rates fell against the United States dollar in the countries of the region that are more integrated into international capital markets. In fact, the currencies of Brazil, Chile, Colombia and Peru depreciated by more than 9 per cent between December 2012 and December 2013. For various reasons, other currencies also fell sharply, including the bolivar (46.5 per cent), the Argentine peso (32.1 per cent), the Jamaican dollar (14.6 per cent), the Uruguayan peso (12.3 per cent) and the guarani (8.1 per cent).

Figure III
Latin America (selected countries): nominal exchange rate against the United States dollar, January 2012-February 2014
(Index: January 2008=100)

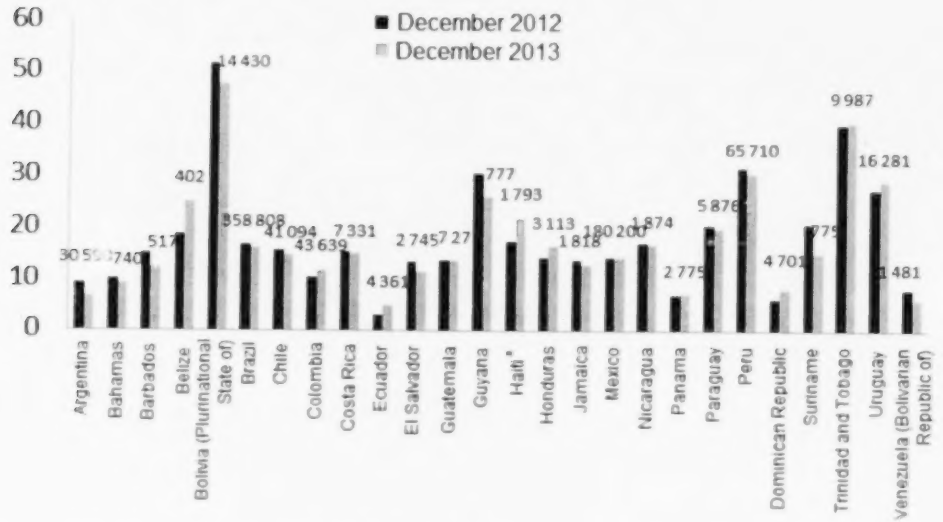
Source: ECLAC, on the basis of figures from Bloomberg.

21. The extraregional real effective exchange rate for Latin America and the Caribbean rose by 1.2 per cent in 2013. By subregion, South America saw a depreciation of 2.2 per cent between December 2012 and December 2013, while variations were much smaller in the economies in the English-speaking Caribbean (up 0.3 per cent) and Central America (including the Dominican Republic) (down 0.5 per cent). In total, the extraregional real effective exchange rate was up in 13 countries, and by over 7.0 per cent in Brazil, Chile, Colombia and Peru.

22. Lower net inflows of financial resources, in conjunction with a wider deficit on the balance-of-payments current account and efforts to slow currency depreciation in some countries, led to a very low rate of reserve accumulation. Consequently, year-on-year, the region's international reserves shrank by 0.4 percentage points as a proportion of GDP in 2013. This marked a significant change from the steady increase recorded in previous years in the region.

23. At the country level, figure IV shows that in Argentina, Barbados, the Bolivarian Republic of Venezuela, El Salvador, Guyana, the Plurinational State of Bolivia and Suriname, international reserves fell by more than 2 GDP percentage points between December 2012 and December 2013. In Belize, Haiti and Honduras they increased by over 2 percentage points of GDP in this period.

Figure IV
Latin America and the Caribbean (selected countries): changes in international reserves, 2012-2013
(Percentages of GDP and millions of dollars)



Source: ECLAC, on the basis of official figures.
[a] Data as at September 2013.

The fiscal deficit widened on average in the region

24. Flexible fiscal policies were adopted in the region in 2013 in the context of slower growth and deteriorating terms of trade, which were eroding public revenue expansion.

25. Countries were able to do this without jeopardizing long-term fiscal sustainability thanks to highly favourable borrowing conditions, with access to abundant external and domestic financing and historically low interest rates. There are of course notable exceptions, including several countries in the Caribbean with limited borrowing room that have been forced to endure difficult fiscal adjustment processes, and some Central American and South American countries with serious fiscal imbalances.

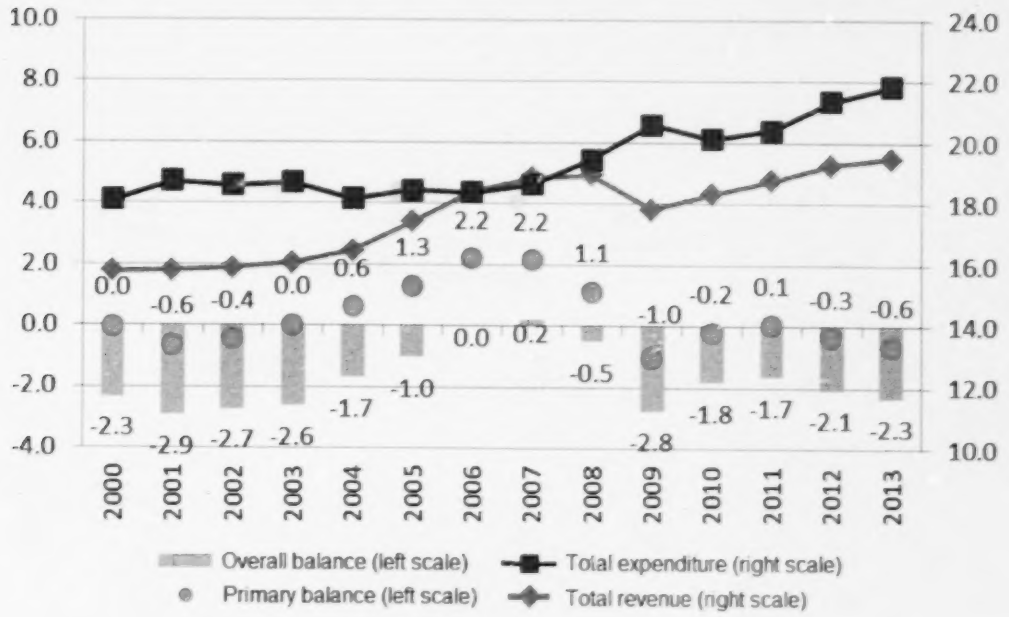
26. The updated figures on the fiscal balance and public debt are not significantly different from those presented in the *Preliminary Overview* of 2013.[2] The region's fiscal position deteriorated during the year. For Latin America, the overall deficit stood at 2.3 per cent of GDP and the primary deficit at 0.6 per cent of GDP, representing the largest since the crisis in 2009 in both cases and the consolidation of a negative primary balance (see figure V and annex, table A-5).

[2] The projections in the *Preliminary Overview* were based on initial data in government budgets for 2014, while the updated data refer to official figures published at the end of 2013.

Figure V

Latin America (19 countries): central government fiscal indicators, 2000-2013[a]

(Percentages of GDP)



Source: ECLAC, on the basis of official figures.

[a] Simple averages.

27. Compared with 2012, the fiscal balance clearly deteriorated in the mineral-exporting countries (Chile and Peru) and in some hydrocarbon-exporting countries (Ecuador and Trinidad and Tobago), though less markedly in Colombia and the Plurinational State of Bolivia. The fiscal deficits in Honduras, Costa Rica and Panama were larger than the subregional average for Central America of 3 GDP points. The Dominican Republic improved its fiscal position by 2.5 GDP points between 2012 and 2013.

28. As figure VI shows, Chile, Haiti, Nicaragua, Peru and the Plurinational State of Bolivia ran fiscal surpluses or small deficits in 2013.

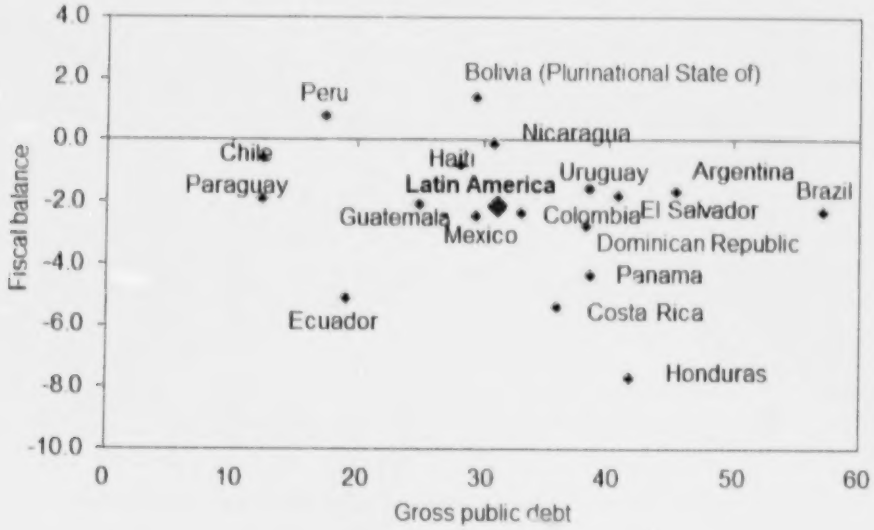
29. On average, Latin America's debt levels remained low and steady, with public debt at around 32 per cent of GDP in 2013 (see figure VI). The countries with debt at or below this level were Chile, Ecuador, Guatemala, Haiti, Mexico, Nicaragua, Paraguay, Peru and the Plurinational State of Bolivia. However, these averages do not reflect the financing impediments faced by some South American countries, where serious imbalances have led to high inflation and diminishing international reserves.

Figure VI

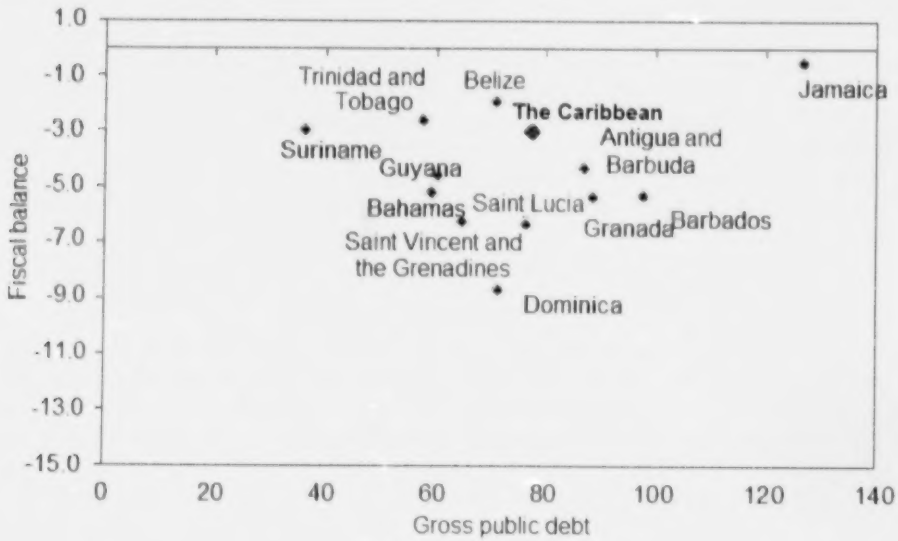
Latin America and the Caribbean: government fiscal balance and public debt, 2013[a]

(Percentages of GDP)

A. Latin America



B. The Caribbean



Source: ECLAC, on the basis of official figures.

[a] Coverage specified in annex, table A-5.

30. These figures refer to gross public debt, which tends to be the measure used in international comparisons; however, in recent years some countries have accumulated significant financial assets in the form of treasury deposits at the central bank (Brazil and the Plurinational State of Bolivia) or stabilization funds (Chile and Peru). In Brazil, for example, net debt amounted to 34.5 per cent of GDP, while gross debt was close to 60 per cent.

31. The overall deficit of the Caribbean countries shrank by 0.2 GDP points to 3.0 per cent of GDP. The picture was more uneven in relation to gross public debt, where the average exceeded 76 per cent of GDP in 2013, with a low of 40 per cent in Suriname and a high of over 120 per cent in Jamaica. In general terms, the service-exporting countries of the Caribbean saw scant economic growth and public debt therefore remained high in 2013.

The region experienced a third consecutive year of slow growth

32. The Latin American and Caribbean region recorded GDP growth of 2.5 per cent in 2013, somewhat lower than the *Preliminary Overview* estimate published in December 2013. The largest discrepancy between the *Preliminary Overview* projection and actual performance was for Argentina, whose economy grew by 3.0 per cent. However, its lower-than-projected result can be attributed to the recalculations carried out using a new base year for the country's national accounts. Growth in Mexico (1.1 per cent) was somewhat slower than estimated. The Plurinational State of Bolivia (6.8 per cent), Colombia (4.3 per cent) and Paraguay (13.6 per cent) posted growth slightly above the initial projections.

33. The annual GDP figures confirm the countries' heterogeneous economic performance. As in 2012, the region's two largest economies, Mexico and Brazil (2.3 per cent), registered low growth in 2013; indeed, if these two countries are excluded, the region's GDP rose by 3.6 per cent. Paraguay and Panama posted the largest expansions, while falls were recorded in Barbados, Dominica and Saint Vincent and the Grenadines.

34. By subregion, South America posted growth of 3.0 per cent (compared with an initial projection of 3.1 per cent), while the group formed by Central America plus the Dominican Republic and Haiti saw an expansion of 4.3 per cent (compared with the projection of 4.0 per cent). GDP growth in the Caribbean stood at 1.2 per cent in 2013, the same rate as recorded in 2012.

Consumption and investment weakened

35. At the regional level, domestic demand, in terms of both consumption and investment, continued to weaken. The slowdown in private consumption was largely a reflection of the wage bill, which continued to rise in the region, but more slowly than before. In several countries, this was exacerbated by cooler lending to the private sector. Public consumption also slackened, standing at 2.5 per cent, the lowest rate since 2003. Gross fixed capital formation expanded by 4.7 per cent in the regional aggregate, although with uneven performances across the countries. Gross fixed investment fell by 3.0 per cent in Mexico and expanded by 6.3 per cent in Brazil and 8.0 per cent in Colombia, while it slowed sharply in Chile (from 12.3 per cent in 2012 to 1.2 per cent in 2013) and Peru (from 14.9 per cent in 2012

to 1.7 per cent in 2013). Gross domestic investment grew more slowly than gross fixed capital formation, reflecting a downward adjustment in inventory accumulation in the region.

36. The rise in gross fixed capital formation pushed up regional investment once again. Although with differences from one country to another, the regional investment rate has increased steadily in the past five years, from 20.6 per cent of GDP in 2009 to 23.0 per cent of GDP in 2013. Buoyant domestic demand was reflected in a 4.9 per cent increase in the region's real imports of goods and services, similar to the rise recorded in 2012. Meanwhile, growth in real exports of goods and services slowed to 2.3 per cent (from 3.1 per cent in 2012).

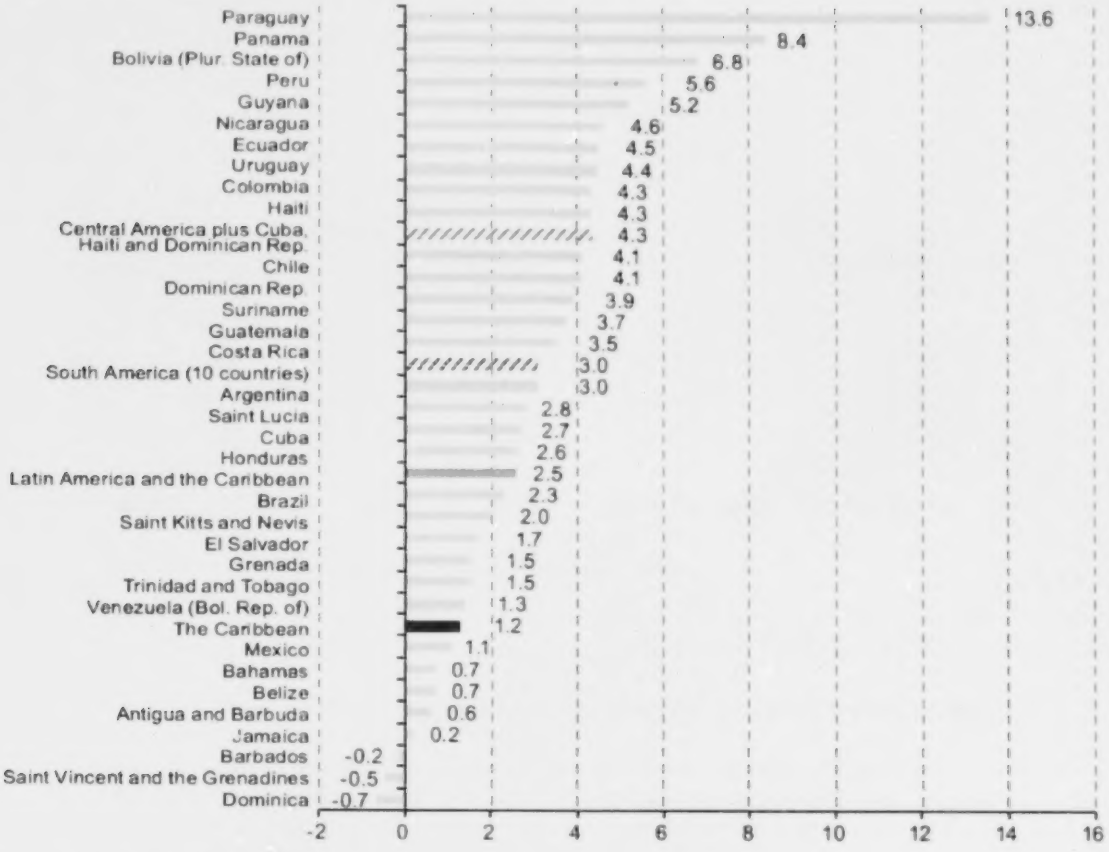
37. Commerce performed well across the board, albeit slightly less buoyantly than in 2012. All countries recorded positive growth rates in this sector. The tourism sector again made a positive contribution to growth in the hotel and commerce sectors, although the increase in tourist arrivals was smaller in 2013 than in 2012: the number was up by 4.2 per cent in Central America (7.3 per cent in 2012), 2.4 per cent in South America (5.0 per cent in 2012) and 1.0 per cent in the Caribbean (2.8 per cent in 2012).[3]

38. In other sectors, the return of normal weather conditions supported expansion of the agricultural sector at rates above the average for the national economy in Argentina (11.1 per cent), Brazil (6.5 per cent) and Paraguay (36.6 per cent). The performance of the mining sector was quite uneven. While mining activity posted no gain over 2012 figures at the regional level, Nicaragua, Panama, the Plurinational State of Bolivia, Uruguay and some economies of the Organization of Eastern Caribbean States experienced double-digit expansion. A similar pattern was observed in the construction sector. Antigua and Barbuda, Colombia, Grenada, Nicaragua and Saint Vincent and the Grenadines saw construction activity surge by over 10 per cent, and Panama posted rates of almost 30 per cent. The sector contracted in Mexico (by 4.5 per cent), as well as in the Bolivarian Republic of Venezuela, Dominica, the Dominican Republic, Honduras and Saint Lucia, but held steady in El Salvador. Manufacturing also differed between countries, although overall growth in the sector remained below the rate of expansion of the economy as a whole.

39. The movements in import and export prices yielded smaller terms-of-trade gains in 2013 than in 2012. In addition, as net payments abroad increased and net current transfers declined, gross national disposable income rose by just 2.0 per cent, below the rate of regional GDP growth. With growth in national income flagging, national savings were squeezed and external savings contributed increasingly to financing regional investment.

[3] World Tourism Organization (UNWTO), *UNWTO World Tourism Barometer*, vol. 12, January 2014.

Figure VII
Latin America and the Caribbean: GDP growth rates, 2013
(Percentages based on dollars at constant 2005 prices)

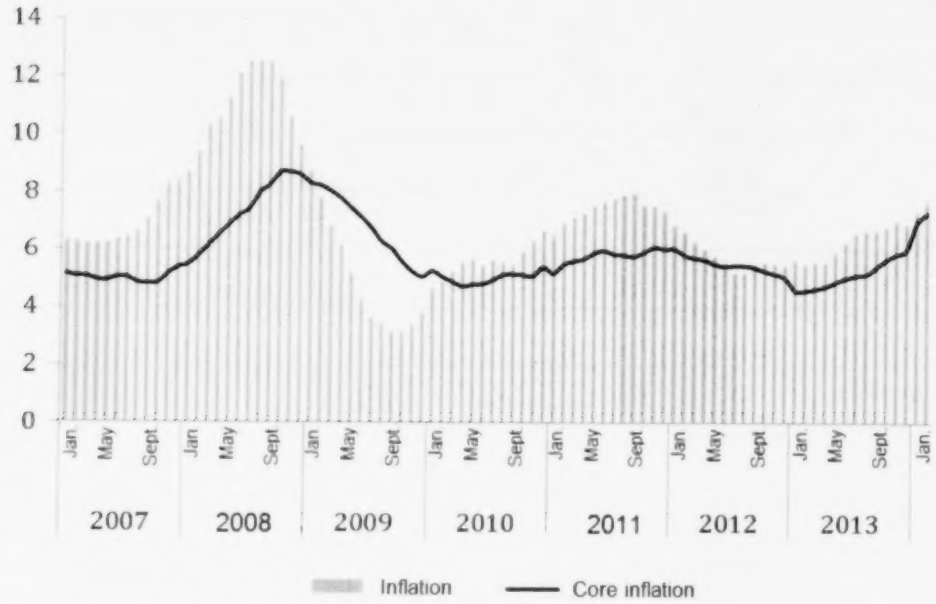


Source: ECLAC, on the basis of official figures.

There was an uptick in inflation

40. The cumulative weighted average inflation rate for the region for the 12 months to December 2013 stood at 7.3 per cent, compared with 5.6 per cent in 2012. The Bolivarian Republic of Venezuela and Argentina posted double-digit inflation rates (see annex, table A-7). Higher food prices, owing mainly to specific factors affecting local food supplies, contributed significantly to the uptick in inflation. However, core inflation also trended upwards over the year in most of the countries.

Figure VIII
Latin America: inflation and core inflation, 2007-2013[a]
(Percentage)



Source: ECLAC, on the basis of official figures.
[a] Cumulative 12-month inflation rate.

Job creation faltered, but did not drive up unemployment

41. In 2013 the economic slowdown was reflected in the labour market, and job creation lost considerable momentum. Consequently, the urban employment rate fell for the second time in 10 years, although by only 0.1 percentage point, from 56.6 per cent to 56.5 per cent (weighted average for 18 countries; see annex, table A-8). One factor behind the slowdown in job creation was the weakening demand for labour, which slowed wage employment expansion to an estimated 1.5 per cent, compared with 3.1 per cent in 2012.

42. Labour market participation by the working-age population contracted, more heavily towards the end of the year, and the urban participation rate consequently declined from 60.5 per cent in 2012 to 60.3 per cent in 2013. This lower rate reflected a drop in labour force participation by men (for a weighted average of 16 countries), while the rate for women remained stable. In terms of simple averages for these countries, women's labour force participation went up by 0.3 percentage points, while that of men held steady.

43. Owing to the contraction in labour market participation, the lower employment rate did not push up unemployment. Indeed, since participation fell more heavily than expected, the urban open unemployment rate actually decreased by 0.2 percentage points, from 6.4 per cent to 6.2 per cent (instead of 6.3 per cent as estimated in the *Preliminary Overview*). In absolute terms, the number of urban

unemployed fell by approximately 160,000; however, an estimated 13.5 million of those aged 15 years and over remain unemployed in the region's urban areas.

44. On average for 16 countries, the unemployment rate fell slightly for men and women alike, but for opposite reasons. As was the case for the aggregate employment rate, the drop in the male employment rate did not translate into a higher level of unemployment because of the lower participation rate for men. Meanwhile the increase in the labour force participation rate among women was more than offset by an increase in the level of female employment.

45. Weaker labour demand also resulted in a smaller increase in formal employment, which grew by 2.9 per cent (simple average for 12 countries), the lowest rate since 2002 (with the exception of 2009). The expansion of formal employment reflects not only the creation of new jobs, but also the formalization of existing jobs.

46. Visible underemployment is another sign of change in the labour markets. This indicator had improved gradually over the last decade (again, with the exception of 2009), but that trend was interrupted in 2013 with a slight increase in visible underemployment (simple average for 13 countries). However, the changes were modest in most countries.

47. In the majority of countries with information available, average wages increased more slowly than the previous year, although they continued to be a significant factor in raising household income. In the countries with data available, wages rose by 1.9 per cent in the median in real terms (compared with 2.3 per cent in 2012). Contributing to the slower rise was the more modest increase in the minimum wage (on average for 20 countries), which went up by 1.4 per cent in real terms, compared with 2.8 per cent in 2012.

48. In sum, the loss of momentum in the labour markets in 2013 did not result in higher unemployment. Nevertheless, fewer new jobs and more modest increases in real wages led to slower growth in the wage bill, which reined in household consumption and hence domestic demand.

Table 3
Latin America and the Caribbean: labour market indicators, 2004-2013
(Percentages)

	2004	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013[a]*
Urban unemployment rate[b,c]										
Weighted average	10.3	9.0	8.6	7.9	7.3	8.1	7.3	6.7	6.4	6.2
Urban participation rate[c,d]										
Weighted average	59.5	59.3	59.5	59.7	59.7	59.8	60.1	60.3	60.5	60.3
National participation rate[e,f]										
Simple average	60.8	60.2	60.6	60.9	60.9	60.9	60.8	61.0	60.9	61.1
Women	47.8	47.6	48.0	48.3	48.6	48.9	48.9	49.1	49.3	49.6
Men	74.8	73.8	74.3	74.5	74.2	74.0	73.7	73.9	73.5	73.5
Urban employment rate[c,d]										
Weighted average	53.4	54.0	54.5	55.1	55.4	55.0	55.7	56.2	56.6	56.5

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013[a]
Time-related underemployment[b]										
Simple average	10.6	9.9	8.6	8.4	7.9	8.9	8.5	8.1	7.9	8.1
Formal employment indicators[b,c]										
Simple average	107.5	115.2	122.3	132.2	140.2	140.5	145.9	153.5	159.8	164.8
Real average wage[d]										
Median	102.5	103.0	105.1	106.4	105.2	108.6	111.0	112.8	115.4	117.6
Real minimum wage[e]										
Median	103.6	105.6	109.2	110.9	110.1	115.9	118.1	119.6	123.0	124.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

[b] Twenty-four countries.

[c] Series adjusted for changes in methodology in Mexico (2005).

[d] Eighteen countries.

[e] Sixteen countries.

[f] For countries for which no nationally adjusted series is available, the urban series is included.

[g] Thirteen countries.

[h] Generally, workers covered by social security. 12 countries.

[i] Index: 2000=100.

II. Outlook for 2014

49. Thus far in 2014, activity indicators in the developed countries have either shown signs of a moderate uptick, as in the United States, the United Kingdom, the Republic of Korea, Germany and various other eurozone economies, or signs that the downturn has bottomed out. Although production levels have yet to regain pre-crisis levels in several European countries, the indications are that the developed countries overall will yield economic growth on the order of 2.2 per cent in 2014,[4] better than the average of 0.3 per cent for 2007-2010. Meanwhile, China still shows no indicators of a sharp slowdown and its Government has set a growth target of 7 per cent for 2014. A degree of caution is warranted, however, given recent signs of tension in China's financial system and the slower growth in its manufacturing industry.

50. During the first few months of 2014, the United States Federal Reserve reduced its rate of financial asset purchases on three occasions and tapering of monetary stimulus will continue throughout the year and at least into the first quarter of 2015. At that point, the Federal Reserve will begin to raise the interest rate from the present level of close to 0 per cent. Japan is expected to continue its expansionary monetary policy, principally to counteract the effects of higher consumption taxes scheduled for this year. No major changes are expected in eurozone monetary policy, which is geared mainly towards stabilizing sovereign debt markets, although the rising spectre of deflation makes the adoption of a looser stance more likely.

[4] International Monetary Fund, *World Economic Outlook Update, Recovery Strengthens, Remains Uneven* (Washington, D.C., April 2014).

51. More robust activity in the developed countries, along with a gradual return to normalcy in United States monetary policy, suggests that the dollar will tend to appreciate against the currencies of the emerging economies and that international financial resources will become more costly.

52. Two opposing forces are thus coming to bear on commodity markets. On the one hand, higher financial costs will likely lead to a reduction in inventories, which, together with the resulting currency appreciation in developed countries, will pull prices downward. On the other hand, stronger growth in the global economy will sustain some momentum in demand. Since global growth in 2014 is expected to be driven by stronger activity in the developed countries, whose growth is less intensive in demand for primary products, commodity prices are likely to fall moderately once again. Also influencing this decline will be the re-gearing of the Chinese economy's production structure towards services provision, as well as its rechannelling of expenditure towards consumption and away from investment.

53. With respect to hydrocarbons, geopolitical tensions have shifted to Europe with the conflict in Ukraine threatening to disrupt supply. This continues to generate uncertainty in the hydrocarbon market, although previously there was some consensus that prices would edge down, owing to the significant changes occurring in global energy supply.

54. China's performance in 2014 is the main risk factor in this baseline scenario. If insolvency increases in the country's financial system or if growth cannot be kept above 7 per cent, then the external context for the Latin American and Caribbean region could take a negative turn, especially for countries that have strong trade links with China.

55. With prices falling slightly, especially for food and mining products, terms of trade will be rather less favourable than in previous years. For the region as a whole, terms of trade are expected to worsen again in 2014, by around 1 per cent. This external environment will have different effects on the countries of the region depending on their export structure and relationship with the leading economies. The impact will be harshest for the South American countries, whereas the Central American and Caribbean economies, as net food importers, are expected to see a slight terms-of-trade gain. Mexico's terms of trade should remain relatively stable in 2014, most of its exports being manufactures.

56. Export volumes are expected to follow a similar pattern to that of 2013, with a slight rise at the regional level and major differences between subregions and countries. For commodity-intensive economies exporting mainly to China, the expected trends in volumes and prices will yield little growth in export values. Economies exporting mainly to the United States (especially Mexico and the Central American countries) face a somewhat brighter export outlook.

57. Assuming that the Federal Reserve continues to taper off monetary easing in the United States and as other developed economies recover somewhat, financial flows will in all likelihood continue to gradually shift back to the developed economies and global liquidity will start to return to more normal conditions. This scenario of tighter external financial resources will affect the countries differently depending on their particular circumstances, including their external vulnerability, their borrowing history and the soundness of their current macroeconomic policies. Without claiming to cover every eventuality, table 4 illustrates some of the

indicators of borrowing and liquidity requirements that may be used to gauge countries' vulnerability to a shift in financial flows.

Table 4
Latin America and the Caribbean: indicators of borrowing and liquidity requirements, 2013
(Percentages and percentage points)

	External debt-to-GDP ratio		*Current account-to-GDP ratio*		*Ratio of international reserves to imports of goods and services*	
	2013	*Variation 2010-2013*	*2013*	*Variation 2010-2013*	*2013*	*Variation 2010-2013*
Antigua and Barbuda	37.2	-0.8	-14.8	-0.1	..	..
Argentina	29.5	-5.4	-0.6	-1.0	33.9	-42.1
Bahamas	13.9	4.9	-18.0	-7.9	15.4	-7.5
Barbados	29.7	-1.0	..	..	..	..
Belize	65.9	-7.1	-4.2	-0.9	36.0	9.5
Bolivia (Plurinational State of)	24.2	-5.7	4.3	0.5	136.6	-10.4
Brazil	14.0	2.0	-3.7	-1.4	110.0	-8.2
Chile	46.7	6.8	-3.4	-5.0	45.5	4.8
Colombia	23.9	1.4	-3.3	-0.2	64.0	2.9
Costa Rica	32.4	7.1	-4.6	-1.1	38.0	6.6
Dominica	52.6	1.7	..	..	..	..
Dominican Republic	24.8	5.5	-3.8	4.6	24.9	3.6
Ecuador	19.4	-0.6	-1.9	0.4	14.4	2.8
El Salvador	50.5	5.2	-7.0	-4.3	23.3	-8.1
Granada	69.8	0.1	-23.8	2.7	..	..
Guatemala	29.4	0.3	-3.1	-1.7	38.0	-1.5
Guyana	41.3	-4.9	-15.6	-4.6	41.1	-3.1
Haiti	15.0	3.9	-3.2	-0.7	47.1	15.7
Honduras	34.5	10.7	-5.4	-1.1	24.5	-3.0
Jamaica	57.3	-6.1	-8.6	-1.6	23.5	-22.7
Mexico	18.7	-0.1	-1.7	-1.4	43.6	6.8
Nicaragua	39.7	-5.4	-12.4	-2.4	24.8	-8.0
Panama	30.5	-8.1	-12.0	-1.7	9.3	-4.9
Paraguay	16.5	-1.6	4.0	4.3	44.4	4.1
Peru	27.8	0.1	-4.7	-2.3	131.9	5.3
Saint Kitts and Nevis	39.9	-5.9	-13.8	6.3	..	..
Saint Lucia	34.9	3.5	-12.0	4.2	..	..
Saint Vincent and the Grenadines	40.8	0.6	-26.8	3.7	..	..
Suriname	9.3	1.7	3.4	-11.5	31.4	-7.2
Trinidad and Tobago	8.3	0.7	17.6	-2.7	116.7	-15.0
Uruguay	39.3	-8.2	-7.4	-5.5	103.0	26.3

	External debt-to-GDP ratio		Current account-to-GDP ratio		Ratio of international reserves to imports of goods and services	
	2013	Variation 2010-2013	2013	Variation 2010-2013	2013	Variation 2010-2013
Venezuela (Bolivarian Republic of)	32.0	-8.5	1.8	-3.2	29.3	-26.9
Latin and America and the Caribbean[a]	32.8	-0.4	-2.8	-1.2	50.0	-2.2
Latin America[a]	28.9	0.0	-2.6	-1.2	51.9	-1.8
The Caribbean[a]	38.5	-1.0	-10.6	-1.1	44.0	-4.1

Source: ECLAC, on the basis of official figures.

[a] Simple average.

58. First, external indebtedness represents the prior accumulation of liabilities and, if it is high, the cost of refinancing it will be high as well. On this basis, several countries of Central America and, especially, the Caribbean appear to be vulnerable. Nevertheless, countries where currency overvaluation keeps indebtedness apparently — and unsustainably — low may be vulnerable too. As demonstrated by previous crises, exchange-rate adjustments can drastically increase the external debt burden.

59. Second, a large current account deficit, especially if it has deteriorated recently, indicates significant external borrowing requirements. On this basis too, the Caribbean and Central American countries appear to be in a vulnerable position, along with some South American countries whose external balance has weakened.

60. Third, with external financing suddenly dwindling, international reserves provide the liquidity needed to maintain the pace of imports and meet external commitments. In this respect, the region is even more heterogeneous and in a number of cases import coverage is very low and has fallen recently.[5]

61. A very substantial proportion of the region's external financing requirements has been covered until now by FDI. Nevertheless, a slowdown in FDI flows cannot be ruled out, especially towards sectors producing commodities for which demand growth will be slacker than in previous years. FDI geared to production for domestic markets will follow investor expectations concerning countries' ability to drive domestic market growth by means of countercyclical policies.

62. Thus, in 2014, global liquidity is likely to tighten, bringing major macroeconomic policy and external financing challenges for the region. This context of scant economic growth, widening current account deficits and more limited capital inflows poses new and greater challenges for 2014, specifically for monetary authorities.

63. Amid volatile exchange rates and sharper currency depreciations or reserve losses, central banks may choose to absorb liquidity to prevent exchange-rate adjustments from triggering domestic price inflation. An additional risk in this

[5] The indicator used in table 4 is only one of the ways of gauging the adequacy of international reserves. For a more in-depth discussion, see box II.2 in ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2011* (United Nations publication, Sales No. E.12.II.G.2), and section II.C of Part 2 of ECLAC, *Economic Survey of Latin America and the Caribbean 2010-2011* (United Nations publication, Sales No. E.11.II.G.3).

scenario is the possibility of balance sheet difficulties arising in some of the region's financial and non-financial institutions, owing to exchange-rate fluctuations coming on top of currency misalignments between assets and liabilities, as well as arrears issues if borrowing conditions become harsher.

64. On the other hand, weaker external demand could prompt monetary policymakers to make an even greater effort to maintain liquidity levels in order to sustain domestic demand. Which of these policy slants prevails will depend on the policy space available, the extent to which currency depreciations pass through to inflation and how quickly domestic demand cools. During 2014, then, the authorities will continue to respond depending on the relative significance of the various challenges relating to inflationary pressure and the economic slowdown. In fact, in the first few months of the year, two countries (Brazil and Paraguay) raised their monetary policy rate and another (Chile) lowered it.

65. Meanwhile, the tighter external constraints faced by the region's central banks will tend to increase exchange-rate volatility in economies with flexible currency regimes and erode reserve accumulation — or even produce reserve losses — in economies with fixed exchange rates or those which intervene in the market to stem exchange rate volatility. Early in the year, the national currency depreciation that had begun in 2013 in several countries continued, although exchange rates tended to stabilize subsequently. At the same time, the Argentine currency was devalued sharply while the Bolivarian Republic of Venezuela established a new mechanism for allocating dollars to the private sector (in addition to the Complementary System for Foreign Currency Administration, SICAD), resulting in the creation of a third, higher official exchange rate, which was equivalent in practice to a currency devaluation.

66. In a departure from the pattern of recent years, domestic demand in the region overall is unlikely to receive much of a boost from fiscal policy in 2014. On the income side, the sluggish economic performance will undermine tax receipts, while in several countries revenues from the export of natural resources will slacken or fall, reflecting international price forecasts, although currency depreciation will soften this impact somewhat. At the same time, declining international liquidity will squeeze financing conditions, which will probably constrain public spending growth and force Governments to seek new measures to boost revenues. In other words, 2014 could mark a turning point towards a new period in which the fiscal accounts will be harder to balance, with lower growth than in 2003-2008.

67. Bearing in mind that new administrations took office in several countries in 2014, amid growing demands from the public and a slowdown in government receipts, fiscal policy may be expected to return to the heart of public debate, with discussion on new tax packages and initiatives for shifting public expenditure towards the social sectors.

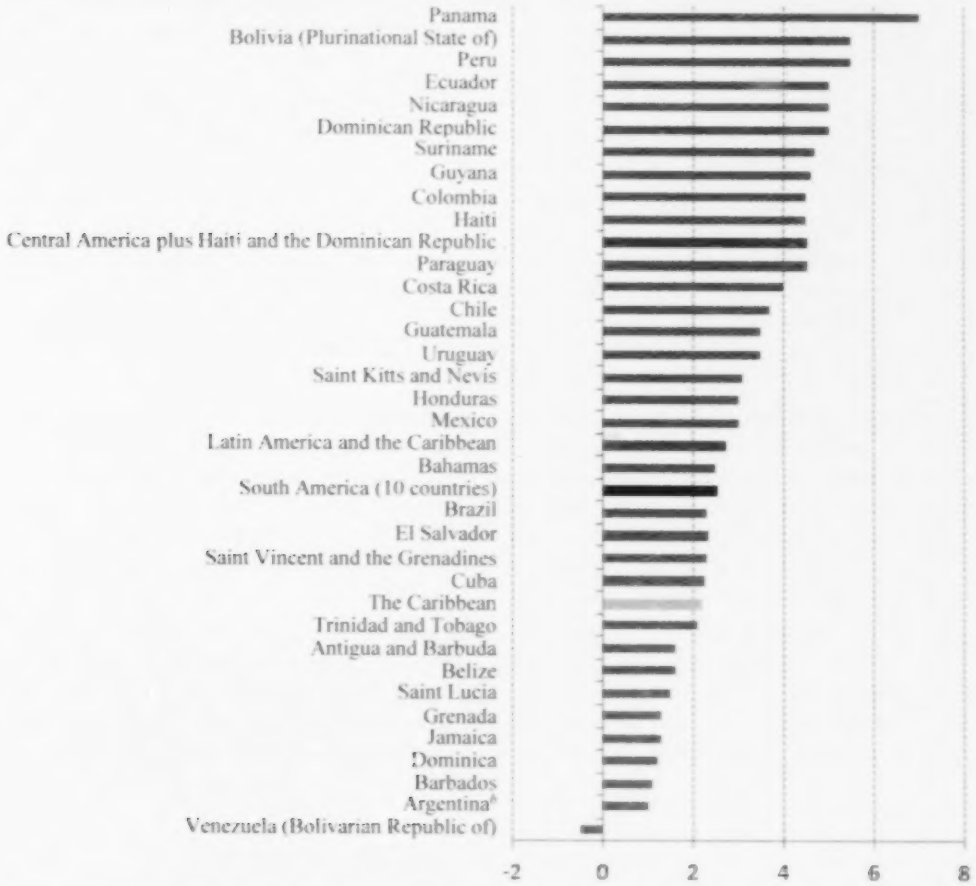
68. Given the external context for 2014, growth in the region will not rise much above the 2013 figure and will likely reach 2.7 per cent, down from the 3.2 per cent forecast at the end of 2013 (see figure IX). Contributing to this lower regional growth projection was the fact that, in some countries, disequilibria that had become evident in recent years worsened in the course of 2013, and adjustments became increasingly necessary. This was particularly the case in Argentina and the Bolivarian Republic of Venezuela. Early in the year Argentina devalued its currency sharply and increased interest rates, measures that are bound to dampen economic

activity in the short term.[6] In the Bolivarian Republic of Venezuela, economic activity is restrained by the shortage of foreign exchange, among other factors. These were the countries whose growth projections were lowered most steeply compared with the figures given in the *Preliminary Overview*. The region's two largest economies, Brazil and Mexico, will also yield lower growth than forecast, although the respective adjustments are smaller in these cases.

Figure IX

Latin America and the Caribbean: GDP growth, 2014[a]

(Percentages, on the basis of dollars at constant 2005 prices)



Source: ECLAC, on the basis of official figures.

[a] Projections.

[b] In March 2014, Argentina published partial results using the new calculation for the national accounts, which includes a change in the base year. Since only partial information is available, the GDP growth projection for 2014 could be revised substantially.

[6] The lower forecast is also partly due to the change in the base year used for national accounts. In 2013, economic growth was lower than that estimated using the previous base year as well.

69. Nevertheless, the regional figure masks a very mixed picture as regards the growth rates of the economies. The economies of the Dominican Republic, Nicaragua, Panama, Peru and the Plurinational State of Bolivia will grow by 5 per cent or more in 2014, while many countries will register rates of between 3 per cent and 5 per cent.

70. The economic upturn in the United States will benefit the closest economies, especially Mexico and the Central American countries, as the United States is such an important trading partner for them. Caribbean economies specializing in services exports will benefit from the upswing in the developed economies through the rally in the tourism sector, which caters mainly to tourists from those economies. Conversely, the natural resource producers and exporters in South America will feel the effects of lower growth in China, which will weaken demand for their commodities.

71. Private consumption will continue to make a positive contribution to growth, although less strongly than in previous years as lending to households slows and labour markets lose vigour.

72. In most countries, inflation is not expected to increase much, although the regional average will be pushed up by new measurement methodologies in Argentina, an uptick in the rate in several countries (where it nevertheless remains within a range of 3-6 per cent), and still-high inflation in the Bolivarian Republic of Venezuela. This was already apparent early in 2014, since the 12-month cumulative rate of regional inflation for the first two months of the year stood at 7.6 per cent, up from 7.3 per cent in December 2013.

73. With economic growth projections modest for 2014, no major increases are expected in employment creation and the employment rate could hold relatively steady. If the labour force participation rate returns to its long-term trend — a gradual increase as more and more women enter the labour market — the unemployment rate may climb slightly over the 2013 level. Thus far in 2014, however, the participation rate has not risen and, accordingly, the regional unemployment rate has not gone up.

74. Lastly, in many countries, slack labour demand could slow nominal wage rises, which, together with some increase in inflation, could leave growth in real wages below 2013 levels. Overall, modest growth in both employment levels and real wages will likely expand the wage bill somewhat, and this will continue to fuel household consumption, but far less vigorously than during part of the past decade.

Annex

Economic statistics for Latin America and the Caribbean

A-1 Exports and imports of goods free on board (FOB), 2011-2013

A-2 Risk spreads according to the Emerging Markets Bonds Index Global, 2010 to first quarter 2014

A-3 Monetary base, 2009-2013

A-4 Representative lending rates, 2009-2013

A-5 Fiscal balances, 2010-2013

A-6 Gross domestic product, 2009-2013

A-7 Consumer prices, 2009-2013

A-8 Open unemployment rates and employment rates, 2009-2013

Table A-1
Exports and imports of goods free on board (FOB), 2011-2013

	Goods exports			*Goods imports*		
	2011	*2012*	*2013[a]*	*2011*	*2012*	*2013[a]*
Latin America and the Caribbean	**1 108 941**	**1 123 964**	**1 122 698**	**1 037 609**	**1 080 149**	**1 107 690**
Latin America	**1 086 420**	**1 103 292**	**1 101 397**	**1 011 203**	**1 055 225**	**1 083 909**
Argentina	84 051	80 927	83 027	71 126	65 556	70 871
Bolivia (Plurinational State of)	8 358	11 233	11 496	7 927	8 269	9 338[b]
Brazil	256 040	242 578	242 179	226 247	223 183	239 621
Chile	81 438	77 965	76 684	70 398	75 458	74 568
Colombia	58 322	61 447	59 992	52 232	56 703	57 160
Costa Rica	10 414	11 460	11 526	15 542	16 801	17 149
Dominican Republic	8 612	9 079	9 611	17 436	17 758	16 613
Ecuador	23 082	24 569	25 674	23 243	24 532	26 617[b]
El Salvador	5 308	5 339	5 491	9 965	10 258	10 772
Guatemala	10 519	10 103	10 190	15 482	15 838	16 356
Haiti	768	785	851	3 014	2 679	2 755[b]
Honduras	7 977	8 274	8 015	11 126	11 374	11 127[b]
Mexico	349 946	371 378	380 903	351 209	371 151	381 638
Nicaragua	3 666	4 146	4 123	5 844	6 442	6 402
Panama	16 926	18 872	17 505	24 143	25 413	24 256
Paraguay	12 639	11 654	13 605	11 784	11 083	11 942
Peru	46 268	46 228	41 826	36 967	41 113	42 191
Uruguay	9 274	9 916	10 317	10 704	12 277	11 591
Venezuela (Bolivarian Republic of)	92 811	97 340	88 382	46 813	59 339	52 943[b]

	Goods exports			Goods imports		
	2011	2012	2013[a]	2011	2012	2013[a]
The Caribbean	**22 521**	**20 672**	**21 301**	**26 406**	**24 923**	**23 781**[b]
Antigua and Barbuda	56	59	61	431	484	494
Bahamas	834	984	1 007	2 966	3 385	3 284
Barbados	448	..	..	1 703	..	..
Belize	604	626	616	775	837	916
Dominica	33	41	..	199	183	..
Grenada	37	43	45	295	300	305
Guyana	1 129	1 396	1 383	1 771	1 997	1 891
Jamaica	1 665	1 667	1 780	5 922	5 810	5 800
Saint Kitts and Nevis	68	64	62	246	228	251
Saint Lucia	194	197	200	616	537	551
Saint Vincent and the Grenadines	43	48	50	292	315	320
Suriname	2 467	2 563	2 620	1 679	1 782	1 994
Trinidad and Tobago	14 944	12 983	13 476	9 511	9 065	7 976

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Estimate.

Table A-2
Risk spreads according to the Emerging Markets Bonds Index Global, 2010 to first quarter 2014
(Basis points, average values for each period)

					2013				2014
	2010	2011	2012	2013	Q-1	Q-2	Q-3	Q-4	Q-1
Latin America and the Caribbean (15 countries)	**433**	**451**	**513**	**419**	**431**	**423**	**434**	**408**	**421**
Argentina	696	701	1 007	1 091	1 232	1 192	1 106	835	930
Belize	818	1 011	1 968	937	1 232	794	879	843	750
Brazil	209	195	184	217	174	208	248	238	253
Chile	131	140	150	157	139	158	171	160	155
Colombia	194	166	150	167	140	164	189	174	187
Costa Rica	..	..	390	296	251	286	322	327	355
Dominican Republic	373	453	459	383	374	380	404	373	360
Ecuador	954	819	827	626	703	646	632	523	574
El Salvador	322	383	450	383	341	395	412	385	455
Guatemala	..	..	288	263	245	272	278	257	254
Jamaica	492	485	656	653	680	654	632	645	590
Mexico	191	188	190	194	176	196	211	195	199
Panama	181	172	165	185	157	176	203	205	213

	2010	2011	2012	2013	2013 Q-1	2013 Q-2	2013 Q-3	2013 Q-4	2014 Q-1
Peru	179	194	158	167	138	164	190	177	183
Trinidad and Tobago	..	..	..	278	..	..	297	266	211
Uruguay	219	200	176	188	156	187	209	201	216
Venezuela (Bolivarian Republic of)	1 107	1 213	996	944	760	892	998	1 125	1 273

Source: ECLAC, on the basis of figures from J.P. Morgan.

Table A-3
Monetary base, 2009-2013
(Percentage variation with respect to the year-earlier period)

	2009	2010	2011	2012	2013
Latin America					
Argentina	5.4	25.1	37.1	34.9	30.2
Bolivia (Plurinational State of)	19.6	32.4	11.6	18.2	12.5
Brazil	8.0	17.5	11.0	9.4	5.5
Chile	15.0	13.8	14.8	13.7	16.3
Colombia	10.3	12.4	15.1	9.5	12.5
Costa Rica	6.3	10.0	11.7	12.1	14.1
Dominican Republic	3.4	6.4	5.8	9.0	3.9
Ecuador	18.1	24.1	9.9	16.2	23.2
El Salvador	10.8	0.4	-1.3	1.8	4.8
Guatemala	6.6	8.0	10.1	5.8	9.2
Haiti	14.2	34.1	18.1	9.2	0.4
Honduras	11.6	-13.8	10.7	11.3	4.0
Mexico	15.9	9.7	9.5	13.9	6.3
Nicaragua	0.7	24.0	20.5	18.3	6.3
Panama	11.2	7.5	27.1	12.7	16.0
Paraguay	30.7	5.2	5.0	11.8	5.1
Peru	2.1	24.2	31.3	31.2	21.1
Uruguay	6.1	12.9	23.1	21.8	15.3
Venezuela (Bolivarian Republic of)	18.3	24.5	27.0	40.8	61.1
The Caribbean					
Antigua and Barbuda	-10.5	0.9	20.1	29.4	..
Bahamas	2.0	2.5	26.8	-7.8	2.2
Barbados	-13.9	3.4	7.7	-0.9	10.4
Belize	11.9	-1.2	8.2	17.5	19.2
Dominica	-4.6	9.7	8.5	17.8	..
Grenada	-8.5	6.0	7.2	4.7	..
Guyana	10.6	17.7	17.4	15.2	6.6

	2009	2010	2011	2012	2013
Jamaica	22.8	5.5	5.3	6.3	6.3
Saint Kitts and Nevis	48.3	-3.2	36.1	13.7	..
Saint Lucia	8.5	3.6	16.3	4.2	..
Saint Vincent and the Grenadines	-3.2	11.9	0.8	11.8	..
Suriname	22.1	13.0	3.2	27.0	13.8
Trinidad and Tobago	37.6	24.7	14.1	15.4	19.5

Source: ECLAC, on the basis of official figures.

Table A-4
Representative lending rates, 2009-2013
(Average rates)

	2009	2010	2011	2012	2013
Latin America					
Argentina[a]	21.3	15.2	17.7	19.3	21.6
Bolivia (Plurinational State of)[b]	8.5	5.2	6.3	6.7	7.0
Brazil[c]	47.5	42.9	44.9	39.9	39.1
Chile[d]	12.9	11.8	12.4	13.5	13.2
Colombia[e]	13.0	9.4	11.2	12.6	11.0
Costa Rica[f]	21.6	19.8	18.1	19.7	17.4
Dominican Republic[g]	12.9	8.3	11.7	12.2	10.7
Ecuador[h]	9.2	9.0	8.3	8.2	8.2
El Salvador[i]	9.3	7.6	6.0	5.6	5.7
Guatemala[j]	13.8	13.3	13.4	13.5	13.6
Haiti[k]	21.6	20.7	19.8	19.4	18.9
Honduras[l]	19.4	18.9	18.6	18.4	20.1
Mexico[m]	7.1	5.3	4.9	4.7	4.3
Nicaragua[n]	14.0	13.3	10.8	12.0	15.0
Panama[o]	8.3	7.9	7.3	7.0	7.4
Paraguay[p]	14.6	12.5	16.9	16.6	16.7
Peru[q]	21.0	19.0	18.7	19.2	18.1
Uruguay[r]	16.6	12.0	11.0	12.0	13.3
Venezuela (Bolivarian Republic of)[s]	20.6	18.0	17.4	16.2	15.6
The Caribbean					
Antigua and Barbuda[t]	9.5	10.2	10.1	9.4	9.4[v]
Bahamas[t]	10.6	11.0	11.0	10.9	11.2
Barbados[t]	9.8	9.5	9.3	8.6	8.5
Belize[w]	14.1	13.9	13.3	12.3	11.5
Dominica[t]	10.0	9.4	8.7	8.9	9.0[v]
Grenada[t]	10.7	10.3	10.4	9.5	9.1[v]
Guyana[t]	14.0	15.2	14.7	14.0	12.1

	2009	2010	2011	2012	2013
Jamaica[r]	22.6	20.3	18.3	17.8	16.3
Saint Kitts and Nevis[r]	8.6	8.5	9.2	8.5	8.3[v]
Saint Lucia[r]	9.5	9.5	9.2	8.6	8.4[v]
Saint Vincent and the Grenadines[r]	9.1	9.0	9.0	9.3	9.1[v]
Suriname[r]	11.7	11.7	11.8	11.7	12.0
Trinidad and Tobago[g]	11.9	9.2	8.0	7.7	7.5

Source: ECLAC, on the basis of official figures.

[a] Local-currency loans to the non-financial private sector, at fixed or renegotiable rates, signature loans of up to 89 days.

[b] Nominal local-currency rate for 60- to 91-day operations.

[c] Interest rate on total consumer credit by natural person.

[d] Non-adjustable 90- to 360-day operations.

[e] Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month. Owing to the high turnover of treasury credit, its weighting was set at one fifth of the amount disbursed daily.

[f] Weighted average financial system for lending rate in local currency.

[g] Prime lending rate.

[h] Effective benchmark lending rate for the corporate commercial segment.

[i] Basic lending rate for up to one year.

[j] Average of highest and lowest lending rates.

[k] Weighted average rate of private debt issues of up to one year, expressed as a 28-day curve. Includes only stock certificates.

[l] Weighted average of short-term lending rates in local currency.

[m] Interest rate on one-year trade credit.

[n] Commercial lending rate, local currency.

[o] Market lending rate, average for transactions conducted in the last 30 business days.

[p] Business credit, 30-367 days.

[q] Average rate for loan operations for the six major commercial banks.

[r] Weighted average of lending rates.

[s] Figures to September.

[t] Weighted average of lending and overdraft rates.

[u] Rate for personal and business loans, residential and other construction loans; weighted average.

[v] Average lending rate in local currency.

Table A-5

Fiscal balances, 2010-2013

(Percentages of GDP)

	Primary balance				Overall balance			
	2010	2011	2012	2013	2010	2011	2012	2013
Latin America and the Caribbean[a]	**-0.1**	**0.1**	**-0.1**	**-0.3**	**-2.5**	**-2.3**	**-2.5**	**-2.5**
Latin America[b]	**-0.2**	**0.1**	**-0.3**	**-0.6**	**-1.8**	**-1.6**	**-2.0**	**-2.3**
Argentina[c]	1.5	-0.1	-0.1	0.0	-0.1	-2.3	-2.3	-1.7
Bolivia (Plurinational State of)[d]	1.4	-0.2	2.7	2.0	-0.1	-1.1	1.8	1.4
Brazil	2.1	2.3	2.0	1.6	-1.7	-2.6	-2.0	-2.3
Chile	0.1	1.8	1.1	0.0	-0.4	1.3	0.6	-0.6
Colombia	-1.2	-0.3	0.2	0.0	-3.9	-2.8	-2.3	-2.4
Costa Rica	-3.1	-1.9	-2.3	-2.9	-5.2	-4.1	-4.4	-5.4
Cuba[e]	-2.2	..	..	..	-3.6	-1.8	-4.3	1.2

	Primary balance				*Overall balance*			
	2010	*2011*	*2012*	*2013*	*2010*	*2011*	*2012*	*2013*
Dominican Republic	-0.7	-0.1	-2.9	-0.2	-2.7	-2.2	-5.4	-2.8
Ecuador[c]	-0.9	-0.7	-1.0	-3.8	-1.7	-1.6	-2.0	-5.1
El Salvador	-0.4	-0.1	0.5	0.6	-2.7	-2.3	-1.7	-1.8
Guatemala	-1.8	-1.3	-0.9	-0.6	-3.3	-2.8	-2.4	-2.1
Haiti[c]	1.8	2.5	-0.5	-0.5	1.3	2.1	-0.8	-0.8
Honduras	-3.7	-3.2	-4.3	-5.6	-4.7	-4.6	-6.0	-7.7
Mexico	-1.2	-1.0	-1.0	-0.7	-2.7	-2.5	-2.7	-2.4
Nicaragua[d]	1.2	2.1	1.6	0.8	0.1	1.1	0.6	-0.1
Panama	0.1	-1.2	-0.8	-2.4	-2.5	-3.5	-2.9	-4.4
Paraguay	1.6	1.0	-1.6	-1.6	1.2	0.7	-1.8	-1.9
Peru[d]	1.1	3.0	2.9	1.7	-0.1	1.9	1.9	0.7
Uruguay	1.3	1.9	0.4	0.0	-1.2	-0.6	-2.0	-1.6
Venezuela (Bolivarian Republic of)[e]	-2.1	-1.8	-2.2	-0.3	-3.6	-4.0	-4.9	-3.4
The Caribbean[e,f]	**0.1**	**-0.1**	**0.3**	**0.1**	**-3.4**	**-3.5**	**-3.2**	**-3.0**
Antigua and Barbuda	1.0	-2.7	1.1	-2.4	-1.4	-5.3	-1.4	-4.3
Bahamas[c]	-2.0	-3.4	-4.3	-2.5	-4.7	-5.7	-6.7	-5.2
Barbados[c,g]	-3.2	1.7	-1.4	1.0	-8.7	-4.4	-8.0	-5.3
Belize[c]	2.2	2.0	2.8	1.0	-1.2	-1.4	-0.2	-1.9
Dominica	-4.7	-6.7	-7.5	-6.6	-6.4	-8.6	-9.0	-8.7
Grenada	-0.4	-0.7	-2.1	-2.9	-2.4	-3.2	-5.5	-5.4
Guyana[c]	-1.2	-1.6	-3.8	-3.5	-2.9	-3.1	-4.9	-4.6
Jamaica[c]	4.7	3.2	6.2	7.5	-6.4	-6.5	-3.9	-0.5
Saint Kitts and Nevis	2.7	8.9	17.2	18.6	-4.3	2.5	11.2	14.5
Saint Lucia	2.1	-1.8	-3.0	-2.6	-0.6	-4.6	-6.4	-6.4
Saint Vincent and the Grenadines	0.0	-0.2	0.3	-3.8	-2.9	-2.7	-2.1	-6.2
Suriname[c]	-2.0	-1.0	-1.9	-2.1	-2.5	-2.0	-2.8	-3.0
Trinidad and Tobago	2.6	1.2	0.5	-0.7	0.1	-0.7	-1.4	-2.6

Source: ECLAC, on the basis of official figures.

[a] Simple averages for 33 countries. The coverage corresponds to the central Government.

[b] Simple averages; does not include Cuba.

[c] Preliminary figures for 2013, prepared on the basis of information from public budgets for 2013-2014.

[d] The coverage corresponds to the central Government.

[e] Fiscal year.

[f] Simple averages.

[g] The coverage corresponds to the non-financial public sector.

Table A-6
Gross domestic product, 2009-2013
(Annual growth rates)

	2009	2010	2011	2012	2013[a]
Latin America and the Caribbean	**-1.6**	**5.8**	**4.3**	**3.1**	**2.5**
Latin America	**-1.5**	**5.9**	**4.4**	**3.1**	**2.5**
Argentina[b]	0.9	9.2	8.9	1.9	3.0
Bolivia (Plurinational State of)	3.4	4.1	5.2	5.2	6.8
Brazil	-0.3	7.5	2.7	1.0	2.3
Chile	-1.0	5.8	5.8	5.4	4.1
Colombia	1.7	4.0	6.6	4.2	4.3
Costa Rica	-1.0	5.0	4.4	5.1	3.5
Cuba	1.4	2.4	2.8	3.0	2.7
Dominican Republic	3.5	7.8	4.5	3.9	4.1
Ecuador	0.6	3.5	7.8	5.1	4.5
El Salvador	-3.1	1.4	2.2	1.9	1.7
Guatemala	0.5	2.9	4.2	3.0	3.7
Haiti	2.9	-5.4	5.6	2.8	4.3
Honduras	-2.4	3.7	3.8	3.9	2.6
Mexico	-4.7	5.2	3.8	3.9	1.1
Nicaragua	-2.2	3.6	5.4	5.0	4.6
Panama[c]	4.0	5.9	10.8	10.2	8.4
Paraguay	-4.0	13.1	4.3	-1.2	13.6
Peru[b]	1.0	8.5	6.5	6.0	5.6
Uruguay[b]	2.4	8.4	7.3	3.7	4.4
Venezuela (Bolivarian Republic of)	-3.2	-1.5	4.2	5.6	1.3
The Caribbean	**-3.5**	**0.1**	**0.5**	**1.2**	**1.2**
Antigua and Barbuda	-12.0	-7.2	-2.0	3.3	0.6
Bahamas	-4.2	1.0	1.7	1.8	0.7
Barbados	-4.1	0.3	0.8	0.0	-0.2
Belize	0.3	3.1	2.1	1.5	0.7
Dominica	-1.1	1.2	0.2	-1.1	-0.7
Grenada	-6.6	-0.5	0.8	-1.8	1.5
Guyana	3.3	4.4	5.4	4.8	5.2
Jamaica	-3.5	-1.5	1.3	-0.3	0.2
Saint Kitts and Nevis	-5.6	-3.2	1.7	-1.2	2.0
Saint Lucia	-0.1	-0.7	1.4	-1.3	2.8
Saint Vincent and the Grenadines	-2.1	-3.3	-0.4	1.6	-0.5
Suriname	3.0	4.1	4.7	4.4	3.9
Trinidad and Tobago	-4.4	0.2	-1.6	1.5	1.5

	2009	2010	2011	2012	2013[a]
Memo item:					
Central America (9 countries)	0.8	4.8	5.1	4.7	4.3
South America (10 countries)	-0.2	6.4	4.6	2.6	3.0

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures.

[b] Argentina, Panama, Peru and Uruguay published new national accounts series in 2014, which included a change in the base year.

Table A-7

Consumer prices, 2009-2013

(Percentage variation December-December)

	2009	2010	2011	2012	2013
Latin America and the Caribbean	4.6	6.5	6.8	5.6	7.3
Latin America					
Argentina	7.7	10.9	9.5	10.8	10.9
Bolivia (Plurinational State of)	0.3	7.2	6.9	4.5	6.5
Brazil	4.3	5.9	6.5	5.8	5.9
Chile	-1.4	3.0	4.4	1.5	3.0
Colombia	2.0	3.2	3.7	2.4	1.9
Costa Rica	4.0	5.8	4.7	4.5	3.7
Cuba	-0.1	1.5	1.3	2.0	0.3[a]
Dominican Republic	5.7	6.3	7.8	3.9	3.9
Ecuador	4.3	3.3	5.4	4.2	2.7
El Salvador	-0.2	2.1	5.1	0.8	0.8
Guatemala	-0.3	5.4	6.2	3.4	4.4
Haiti	2.0	6.2	8.3	7.6	3.4
Honduras	3.0	6.5	5.6	5.4	4.9
Mexico	3.6	4.4	3.8	3.6	4.0
Nicaragua	1.8	9.1	8.6	7.1	5.4
Panama	1.9	4.9	6.3	4.6	3.7
Paraguay	1.9	7.2	4.9	4.0	3.7
Peru	0.2	2.1	4.7	2.6	2.9
Uruguay	5.9	6.9	8.6	7.5	8.5
Venezuela (Bolivarian Republic of)	25.1	27.2	27.6	20.1	56.2
The Caribbean					
Antigua and Barbuda	2.4	2.9	4.0	1.8	1.1
Bahamas	1.3	1.4	3.2	0.7	-0.2[b]
Barbados	4.4	6.5	9.6	2.4	1.8[b]
Belize	-0.4	0.0	2.6	0.8	0.8[a]
Dominica	3.2	0.3	2.0	2.0	-1.7

	2009	2010	2011	2012	2013
Grenada	-2.3	4.2	3.5	1.8	-1.7
Guyana	3.6	4.5	3.3	3.4	0.2[c]
Jamaica	10.2	11.8	6.0	8.0	9.7
Saint Kitts and Nevis	1.2	5.2	2.9	0.1	0.3
Saint Lucia	-3.1	4.2	4.8	5.0	-0.7
Saint Vincent and the Grenadines	-1.6	0.9	4.7	1.0	0.0
Suriname	1.3	10.3	15.3	4.4	0.6
Trinidad and Tobago	1.3	13.4	5.3	7.2	5.6

Source: ECLAC, on the basis of official figures.

[a] Twelve-month variation to September 2013.

[b] Twelve-month variation to October 2013.

[c] Twelve-month variation to June 2013.

Table A-8

Open unemployment rates and employment rates, 2009-2013[a]

(Average annual rates)

			2009	2010	2011	2012	2013[b]
Latin America							
Argentina	Urban areas	Unemployment	8.7	7.7	7.2	7.2	7.1
		Employment	54.2	54.4	55.2	55.0	54.7
Bolivia (Plurinational State of)	Departmental capitals	Unemployment	7.9	6.1	5.8	..	..
		Employment	52.4	53.6	..	..	..
Brazil	6 metropolitan areas	Unemployment	8.1	6.7	6.0	5.5	5.4
		Employment	52.1	53.2	53.7	54.2	54.0
Chile[c]	Nationwide total	Unemployment	9.7	8.2	7.1	6.4	5.9
		Employment	50.8	53.7	55.5	55.7	56.0
Colombia	13 metropolitan areas	Unemployment[d]	12.4	11.8	10.9	10.6	10.1
		Employment	56.2	57.6	59.1	60.1	60.3
Costa Rica	Urban total	Unemployment	8.5	7.1	7.7	7.8	8.2
		Employment	57.0	56.4	57.8	57.4	56.5
Cuba	Nationwide total	Unemployment	1.7	2.5	3.2	3.5	..
		Employment	74.2	73.0	73.6	71.6	..
Dominican Republic	Nationwide total	Unemployment	5.3	5.0	5.8	6.5	7.0
		Employment	45.8	47.1	48.0	48.2	47.7
Ecuador	Urban total	Unemployment[d]	6.8	6.1	4.9	4.2	4.0
		Employment	53.9	52.6	51.9	53.2	52.2
El Salvador	Urban total	Unemployment	7.1	6.8	6.6	6.2	..
		Employment	59.7	60.0	59.5	60.6	..
Guatemala	Urban total	Unemployment	..	4.8	3.1	4.0	3.8
		Employment	..	..	59.0	62.8	59.5

			2009	2010	2011	2012	2013[a]
Honduras	Urban total	Unemployment	4.9	6.4	6.8	5.6	6.0
		Employment	50.5	50.3	48.9	48.3	51.1
Mexico	Urban areas	Unemployment	6.6	6.4	5.9	5.8	5.7
		Employment	56.2	56.2	56.7	57.4	57.1
Nicaragua	Urban total	Unemployment	10.5	9.7	..	..	..
		Employment	46.6	..	..	..	..
Panama	Urban total	Unemployment[d]	6.3	5.8	3.6	3.6	3.6
		Employment	59.3	59.1	59.8	60.6	61.1
Paraguay	Asunción and urban areas of the Central Department[e]	Unemployment	8.2	7.2	7.1	8.1	8.1
		Employment	57.1	58.0	58.0	57.8	59.9
Peru	Metropolitan Lima	Unemployment	8.4	7.9	7.7	6.8	5.9
		Employment	62.7	64.5	64.5	64.4	64.8
Uruguay	Urban total	Unemployment	8.2	7.5	6.6	6.7	6.8
		Employment	58.4	58.8	60.7	59.6	59.3
Venezuela (Bolivarian Republic of)	Nationwide total	Unemployment	7.9	8.7	8.3	8.1	7.8
		Employment	60.0	59.0	59.0	58.7	59.3
The Caribbean							
Bahamas	Nationwide total	Unemployment[f]	14.2	.	15.9	14.0	15.8
		Employment	63.0	..	60.6	64.2	61.6
Barbados	Nationwide total	Unemployment[f]	10.0	10.8	11.2	11.6	11.2[g]
		Employment	60.3	59.4	60.0	58.5	59.1[g]
Belize	Nationwide total	Unemployment[f]	13.1	12.5	..	15.3	13.2
		Employment	..	..	..	55.7	56.7[h]
Jamaica[i]	Nationwide total	Unemployment[d]	7.5	8.0	8.4	9.3	10.3
		Employment	56.3	54.6	54.4	53.3	53.4
Trinidad and Tobago	Nationwide total	Unemployment	5.3	5.9	5.1	5.0	3.7[j]
		Employment	59.4	58.4	58.2	58.8	59.6[j]

Source: ECLAC, on the basis of household surveys.

[a] Unemployed population as a percentage of the economically active population and employed population as a percentage of the working-age population, respectively. The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working-age population.

[b] Preliminary figures.

[c] New measurements have been used since 2010; the data are not comparable with the previous series.

[d] Excludes hidden unemployment. Includes an adjustment to the figures for the economically active population.

[e] In 2009, figure refers to urban total.

[f] Includes hidden unemployment.

[g] January-September average.

[h] Figure for April.

[i] Figures are averages for March, June and September.

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Summary of the survey of economic and social developments in the Arab region, 2013-2014**

Summary

The average growth rate of gross domestic product (GDP) of the Arab region in real terms is estimated to be 3.0 per cent in 2013, compared with 7.7 per cent in 2012. That fluctuation, however, which has been observed over the years 2011 and 2013, is due to the unstable Libyan economic performance; the average regional GDP growth rate without the influence of the Libyan economy stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. Overall, the Arab economies are decelerating as energy prices, and associated energy export revenues, continued to come down at a modest rate from the recent peak in 2012. The subregion of Gulf Cooperation Council (GCC) countries remains the growth centre of the region. The polarized state of the economy between those countries and the rest of the countries in the Arab region continued. Political instability, social unrest, armed conflicts and the general sentiment of uncertainty continued to dominate in hampering economic activities. Only a few signs of improvement have been observed. While the uncertainty over global economic recovery was partially lifted as the recovery of the developed countries gained ground, non-oil exports saw a moderate recovery. The region's stock market capitalization marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen could halt the depletion of foreign reserves and were

* E/2014/1/Rev.1, annex II.

** After Libya, Morocco and Tunisia became States members of the Commission in July 2012, it was decided that the territorial coverage of the survey of economic and social developments in the Economic and Social Commission for Western Asia region would be expanded to include all of the countries that constitute the Arab region. The following subregional grouping is used in the present document, taking into account a combination of per capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates); Mashreq (Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, and State of Palestine); Maghreb (Algeria, Libya, Morocco and Tunisia); and Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen).

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prevented from falling into a balance-of-payments crisis. Nevertheless, a significant level of financing gap persists in those Arab countries in the process of sociopolitical transition. The market mechanism that produced a significant economic linkage to enable those countries to benefit from positive spillover from GCC countries in the past decade has not recovered. Alternatively, the inflow of external bilateral and multilateral financial supports became ever more crucial in 2013 for the Arab Mashreq and Arab Maghreb countries and the Arab least developed countries to alleviate the foreign exchange constraint and inflationary pressures and to establish a renewed policy platform for sustainable economic and social development. High unemployment continued to be the pressing issue in the Arab region, including in the GCC countries, which need to create job opportunities for their nationals. Employment creation was still the most important policy agenda in the region. In 2014, strong non-oil sector growth in GCC countries is projected. However, energy export revenues of major energy-exporting countries are projected to decline further by a modest level. Further stagnation of net-energy importing countries is projected because there has been no significant improvement in non-economic risk factors. On average, the Arab economies are forecasted to grow by 3.5 per cent in 2014.

I. Global context

1. Defying pessimistic overviews at the start of the year that warned of a possible double-dip recession, the world economy showed that it was on a stable recovery path during 2013. A robust economic recovery was observed in the developed countries. The United States of America continued to see a resilient economic expansion in spite of the decrease in the federal government's spending.[1] The active financial sector, which was recovering from the global financial crisis of 2008, led the growth of the private sector and cushioned the impact of ongoing fiscal tightening. The recovery of the European economy was gaining ground. In the assessment by the European Commission, macroeconomic imbalances, which are deemed to be the major cause of economic risks among the States members of the European Union, were gradually receding.[2] The risk premium of government debts of southern European countries shrank from a crisis level of the previous year as the risk of a systemic financial crisis abated after the financial insolvency crisis in Cyprus was resolved without international repercussions. Japan's renewed quantitative easing monetary policy buoyed its domestic demand, which supported the recovery of economic sentiment that had been significantly weakened by the Tohoku Earthquake in 2011. The improved price competitiveness through a significant devaluation of the Japanese yen led a recovery in corporate earnings. The improvement of economic sentiment in the developed countries contributed more to the expansion of the world economy in 2013, and that trend is projected to continue in 2014.

2. The economic expansion of the developing economies decelerated in 2013. Hovering international commodity prices contributed to the continuing growth of commodity exporting countries, but the magnitude of economic expansion was narrower owing to the stabilized price level of various commodities. Major developing economies, including Brazil, China, India, the Russian Federation, and South Africa, continued to grow, but a few signs of vulnerability to sustain a higher growth level emerged in 2013. Mounting inflationary pressures forced Brazil and India to adopt a tighter monetary policy. China's wage level continued to increase where the price advantage of its exports through labour cost started waning. The announcement in May 2013 of the monetary authority in the United States, the Federal Reserve, of its plan to taper its unconventional monetary policy regime created a shock to the developing countries' external positions. The national currencies of major developing countries have been depreciating since May 2013. Even the value of China's national currency, the renminbi yuan, was marginally weakened in the first quarter of 2014. The devaluation of national currency was one of the major causes of inflationary pressure through import price hikes, which may lead more developing countries to take a tighter policy measure to control demand. The situation is worrying and projected to continue well into 2014. Taking a

[1] United States Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts Gross Domestic Product, 4th quarter and annual 2013 (third estimate); Corporate Profits, 4th quarter and annual 2013", 27 March 2014. Available from http://www.bea.gov/newsreleases/national/gdp/2014/gdp4q13_3rd.htm.

[2] European Commission, "Results of in-depth reviews under Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances", 5 March 2014, Communication from the Commission to the European Parliament, the Council and the Eurogroup (COM(2014) 150 final). Available from http://ec.europa.eu/economy_finance/economic_governance/documents/2014-03-05_in-depth_reviews_communication_en.pdf.

pro-growth policy mix is essential for developing countries to fulfil developmental aspirations, but it would possibly be less affordable for some developing countries because of the weakening external positions with currency devaluations.

3. The present growth path of the world economy is fundamentally fragile owing to its weak employment creation in its recovery phase. Unemployment rates of the United States and the States members of the European Union stayed above the pre-crisis level of 2008. Globally, it was observed that the global jobs gap created by the global financial crisis of 2008 has not narrowed, but has slightly widened, with the present world economic recovery.[3] The weak employment prospects for both developed and developing economies are expected to have more of an impact on the developing economies, given that the stagnating job creation in the developed economies discourages emigration for job-seeking purposes. Both developed and developing economies have become cautious in taking expansionary fiscal measures after implementing a series of stimulus packages on the global financial crisis. That fiscal stance is to limit the latitude of global employment recovery. In sum, the main challenges that the world economy is facing consist of: (a) the extent to which possible negative impacts of the change in the policy stance of the monetary authority in the United States affect international capital markets, the developing countries' external positions and the value of their national currencies; (b) the extent to which the fiscal policy stance can be expansionary both in the developed and developing countries; and (c) innovative employment creation to prevent an even wider global jobs gap.

4. In the above-mentioned global context, the Arab region saw slower economic growth in 2013 compared with 2012. That was mainly due to the moderate oil revenues growth of major oil-exporting countries, represented by the member countries of the Gulf Cooperation Council (GCC). While those countries were on a stable recovery path, the polarization of economic performance among Arab countries continued between GCC countries and others. Moderate recovery has been witnessed only partially in a few Mashreq and Maghreb countries and the Arab least developed countries. Most countries in those subregional groups suffered from the stagnating economic activities owing to the continuing political instability and social unrest. The crisis in the Syrian Arab Republic continued to have negative spillover effects for neighbouring countries, particularly in regard to reduced cross-border economic activities, including trade, investment and tourism. The insufficient speed of economic recovery in Europe affected non-oil exports of the Mashreq and the Maghreb subregions. High unemployment continued to be the pressing issue in the Arab region, including GCC countries, which need to create job opportunities for their nationals. Employment creation continued to be the most important policy agenda throughout the region.

[3] International Labour Organization, *Global Employment Trends 2014* (2014), p. 17.

II. Development in the natural resources sector

A. Oil sector

5. Hydrocarbon products, particularly crude oil, remained the most influential commodity for the region, as it remains the key economic linkage between the Arab region and the global economy. The total world demand for oil in 2013 was estimated at 90 million barrels per day, on average an increase of 1.18 per cent over the previous year, while the total supply of crude oil was 91.6 million barrels per day on average, according to the Organization of the Petroleum Exporting Countries (OPEC).[4] The United States witnessed increased demand for crude oil in the last quarter of 2013 associated with its economic recovery. China's crude oil demand continued to rise in 2013, while Gulf countries and Latin America, led by Brazil, also recorded a substantial increase in crude oil demand. Reduced crude oil consumption in Europe and Japan offset increased oil demand in other regions.

6. The total crude oil production of member countries of OPEC was reduced, particularly in the fourth quarter of 2013, with a significant decline in Libyan crude oil production. While many non-OPEC countries experienced stagnant or slightly decreased crude oil production, the United States and Canada recorded a remarkable increase in crude oil production, enough to cover the global increase in demand. Regional production of crude oil was quite stable during 2013, except for Libya and Saudi Arabia. Libyan crude oil production plummeted in the second half of 2013; Saudi Arabian crude oil production declined in the first quarter to around 9.1 million barrels per day, and then recovered to a level between 9.7 and 10.0 million barrels per day from the third quarter. The total crude oil production of the GCC subregion averaged 17.3 million barrels per day in 2013, a 1.3 per cent increase over the previous year. Iraq maintained its daily crude oil production of close to 3 million barrels.[5]

7. In energy markets, the volatility of crude oil prices was reduced in 2013. OPEC basket prices were maintained between US$ 96.35 per barrel and US$ 114.94 per barrel during 2013 with the yearly average of US$ 105.87 per barrel (see table 1). The first quarter of 2014, in particular, witnessed very stable crude oil prices despite ongoing geopolitical instability in several major oil-exporting countries. The price floor was firm on the constant demand growth of a stable global economic recovery, but weakened speculative buying in oil futures markets prevented crude oil prices from significant price spikes. Commodity investors in oil futures markets are expected to be cautious in taking long positions because of the expected increase in funding costs. On the supply side, the increased crude oil production capacity, particularly in North America, accommodated occurrences of supply stoppages in several oil-exporting countries.

8. Crude oil prices are projected to edge downward in 2014, following the trend of 2013. Crude oil prices are expected to stay stable, as the projected demand increase for crude oil is to be well accommodated by the increasing crude oil production capacity. According to OPEC, the demand is expected to stand at 91.14 million barrels per day in 2014, a 1.27 per cent increase from the previous year, which is expected to be covered by the sufficiently available crude oil production

[4] OPEC, "OPEC Monthly Oil Market Report" (March 2014).

[5] Joint Organisations Data Initiative (JODI).

capacity. OPEC is expected to continue the present production target of 30 million barrels per day and is not likely to reinstall a country-specific production quota in 2014.

9. Moreover, the trend of narrowing refining margins owing to the relatively weak demand for fuel products is likely to have an impact on crude oil prices. The spread between crude oil and gasoline was rapidly narrowed in the third quarter of 2013 until it recovered in the first quarter of 2014. If these factors are taken into consideration, the OPEC reference basket price is forecasted to average $102.3 per barrel in 2014 in the forecasted range of $94.1 to $110.4.

Table 1

Crude oil price estimation and forecast, 2011-2014

(OPEC reference basket. United States dollars per barrel)

				Forecasted annual average for 2014		
Year	*Minimum*	*Maximum*	*Annual average*	*Lower*	*Baseline*	*Higher*
2011	89.81	120.91	107.46			
2012	88.74	124.64	109.45			
2013	96.35	114.94	105.87			
2014				94.1	102.3	110.4

Source: OPEC for 2011-2013. Figures for 2014 are forecasts as at March 2013.

10. Several risk factors are expected to continue, which may hamper the projected balanced supply-demand balance. Tapering of the United States monetary stance and the economic performance of China may influence the global economic atmosphere, and thus crude oil demand as well as speculations on crude oil prices. Geopolitical risks persist in the Arab region. Lingering conflicts in Libya effectively limited Libyan crude oil production and export. Energy issues are often named as intermediaries of those disputes. The Syrian crisis may have an impact on Iraqi crude oil production, and the growth of the Iranian crude oil export level is still uncertain. Moreover, the influence of geopolitical turbulences such as the unstable political condition in Venezuela (Bolivarian Republic of), as well as the ongoing conflicts between Ukraine and the Russian Federation, cannot be ruled out.

B. Phosphate sector

11. In the light of increasing policy priority in food security, the indispensability of phosphate has been recognized for productive agriculture. As the Arab region has the largest phosphate reserves in the world, policymakers in the region have increasingly been aware of phosphate as a strategic natural resource to form another crucial economic linkage to the global economy. According to estimates from the International Fertilizer Industry Association, global fertilizer consumption was 176 million tons in 2013. Phosphorus pentoxide (P_2O_5) consumption was 40.4 million tons, slightly decreased from the previous year, while it is expected to increase by 1.8 per cent in 2014.[6] Fertilizer consumption increased in almost all

[6] International Fertilizer Industry Association, "Short-Term Fertilizer Outlook 2013-2014" (A/13/159).

regions for 2013, but South-East Asia witnessed a substantial decrease in fertilizer consumption, particularly in India, the largest importer of phosphate rock, and that resulted in the slight decrease in the global fertilizer consumption.

12. During the past year, the global supply of phosphate was sufficient to support the demand. The OCP Group, a State-owned company of Morocco, was the largest exporter of phosphate in 2012 and produced 6.8 million tons of phosphorus pentoxide equivalent, which was approximately 17 per cent of global consumption.[7] China, followed by the United States and Morocco, is the world's largest producer of phosphate, but its exports were somewhat limited with an export tax that has been imposed since 2008; production from the United States and China was mostly consumed domestically, leaving the Arab region as the largest exporter of phosphate rock. Regional production capacity is likely to increase in the next few years with considerable investment in the industry. Saudi Arabia is investing heavily in building an industrial complex dedicated to the production and processing of phosphate through the Waad Al-Shamal project near the Jordanian border, with total investments of more than US$ 9 billion. The OCP Group is also expanding its production capacity with a US$ 271 million loan agreed with a German bank in the last quarter of 2013.

13. The price of phosphate rock fell substantially during 2013. After the historical price hike and collapse in 2008 and 2009, the price of phosphate rock had been relatively stable from mid-2011 to the end 2012 at around US$ 180 to 200 per ton.[8] During 2013 however, the price plummeted to around US$ 100 per ton. The demand for phosphate is expected to increase slightly during the current year, while that would be sufficiently supported by increasing the production capacity of major phosphate-exporting countries. Thus, a supply shortage is not expected and the price of phosphate rock is not likely to jump significantly, although a certain level of price recovery during 2014 is possible with recovery of demand from China and India.

III. Regional economic trends

A. Overview

14. It is estimated that the real GDP growth on average in the Arab region was 3.0 per cent in 2013, compared to 7.7 per cent in 2012 (see table 2). The fluctuation that has been observed over 2011 and 2013 is a result of the instable Libyan economic performance. The average GDP growth rate without Libya stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. The subregion of GCC countries remains the growth centre of the region. The polarized state of the economy between GCC countries and the other countries in the Arab region continued. Political instability, social unrest, armed conflicts and a general sentiment of social uncertainty continued to hamper economic activities, while a few signs of improvement have been observed. As the uncertainty over global economic recovery was partially lifted, non-oil exports saw a moderate growth. The region's stock market capitalization marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen were able to halt the depletion of foreign reserves and were

[7] OCP Group website.

[8] World Bank, "Global Economic Monitor (GEM) Commodities".

prevented from falling into a balance-of-payments crisis. Intraregional cooperation on a bilateral basis played a major role in that stabilization, which replaced the spillover resource flows from the subregion of GCC countries through financial markets and intraregional foreign direct investment.

B. Gulf Cooperation Council countries

15. The subregion of GCC countries is estimated to have had 4.3 per cent GDP growth in 2013, after registering 5.7 per cent in 2012. The proportional contribution of the oil sector to the growth has been reduced as oil export revenues have decreased from the historical high of 2012. The activities in the non-oil sector became an engine of growth, which was most notably represented by the recovery of the Emirate of Dubai of the United Arab Emirates. Robust economic sentiment and confidence were observed in GCC countries, which continued to push up the value of financial and property assets. By the first quarter of 2014, share price indices had surpassed the pre-crisis level of 2008 in stock markets in Qatar and Saudi Arabia. More confidence was placed in the subregion's financial institutions when they had completed balance sheet adjustment. In addition to the continuously active fiscal stance following the previous fiscal year, the observed monetary expansion indicated the increasing financial leverage in economic activities that has been supporting the growth of domestic demand.

16. The GDP growth rate is projected to stay at the same level in the subregion of GCC countries in 2014. The declining oil export revenues are to be counterbalanced by the growth of the non-oil sector, which would result in a stable growth of domestic demand. Other factors to consider are the fiscal stance, the proportion of non-oil sector activities, and the financial sector's robustness associated with monetary expansion. The average real GDP growth rate of this subregion is projected at 4.4 per cent for 2014. Among GCC countries, Qatar and the United Arab Emirates are projected to have a growth rate above the subregional average for their rapid non-oil sector expansion relative to the respective energy sector. Saudi Arabia is also projected to have a consistent domestic demand expansion with a continuing active fiscal policy. However, the shortage of construction workers, which was caused by the deportation of illegal foreign workers, is projected to affect the implementation of planned construction projects. Modest but consistent growth is projected for Bahrain, Kuwait and Oman in line with the level of domestic demand expansion of those countries. In 2014, the forecasted growth rate is 4.0 per cent for Bahrain, 3.8 per cent for Kuwait, 3.8 per cent for Oman, 5.5 per cent for Qatar, 4.0 per cent for Saudi Arabia and 5.2 per cent for the United Arab Emirates.

C. Arab Mashreq

17. The economies in the subregion of the Arab Mashreq are, on average, estimated to have contracted by 0.6 per cent in 2013, after registering 0.1 per cent growth in 2012. The Syrian crisis and its repercussions for its neighbouring countries continued to affect the state of the subregion's economy. That subregion has been most affected by political instability and social unrest, which hampered forward-looking economic activities such as physical investments. A partial recovery in non-oil exports and lower energy prices helped to stabilize the current account deficits. A few signs of improved economic sentiment were observed. A

case in point is that Egypt's stock market index recovered in the first quarter of 2014 to surpass the level at the start of the sociopolitical transition of January 2011. Reduced tourism and foreign direct investment inflows, however, obliged those countries to rely on bilateral financial supports to finance the current account deficits. Because of lessened foreign exchange constraints with the increased level of foreign reserves, Egypt and Jordan were able to change the monetary stance from tightening to easing. As a tight fiscal stance has been in place in both countries, a monetary measure was the only policy option to sustain the level of domestic demand. Both Jordan and Lebanon are estimated to mark positive growth in 2013, but the magnitude is significantly insufficient to improve the standard of living of the resident population in the respective countries owing to the influx of refugees and evacuees from the Syrian Arab Republic. The fiscal shortfall to support the refugees was having an impact on Jordan and Lebanon, which resulted in the deterioration of the standard of living of refugees and in stagnated domestic economic activities that might have been able to support the suddenly increased number of residents by an extraordinary margin. The GDP growth of Iraq continued to be led by crude oil production, oil sector-related activities in the south of the country, and a consistent economic expansion in the region of the Kurdish Regional Government. The regional gap in Iraq has been widened as the activities of the central region stalled owing to the intensified security instabilities. The destruction of the Syrian economy continued to hamper economic activities severely. The rising cost of domestic transports paralysed the economy even in the areas that did not directly suffer from the violence. The real GDP growth of the State of Palestine decelerated. Reduced construction activities, which had been the core of domestic demand expansion for the reconstruction of the Gaza Strip, stalled. Continuing hostilities, physical blockades and security instabilities continued to hamper the Palestinian economy.

18. For 2014, the subregion of the Arab Mashreq is projected to stay stagnated with a growth rate of 2.9 per cent. That forecast does not include, the forecasted value of the Syrian Arab Republic because of insufficiently available data for forecasting. The perceived uncertainty and political and geopolitical risks overwhelmed a few positive factors for economic growth by continuing to hamper investments. The weak domestic demand growth and non-energy export growth is projected in all countries in this subregion. However, those countries are projected to be spared a balance-of-payments crisis owing to the availability of intraregional supports for those countries with current account deficits. As a tight fiscal stance continues, the countries continue to rely on monetary policy as a pro-growth measure. The forecasted growth rate is 2.4 per cent for Egypt, 6.8 per cent for Iraq, 3.0 per cent for Jordan, 2.5 per cent for Lebanon and 2.6 per cent for the State of Palestine.

Table 2
Real GDP growth rate and consumer price inflation rate, 2010-2014
(Annual percentage change)

Country area	Real GDP growth rate					Consumer inflation rate				
	2010[a]	2011[a]	2012[a]	2013[b]	2014[c]	2010	2011	2012	2013[b]	2014[c]
Bahrain	4.3	1.9	3.4	5.3	4.0	2.0	-0.4	2.8	3.5	3.1
Kuwait	-2.4	10.2	8.3	4.0	3.8	4.0	4.8	2.9	2.6	3.2
Oman	4.8	0.9	5.8	3.0	3.8	3.2	4.1	2.9	1.3	2.1
Qatar	16.7	13.0	6.2	6.5	5.5	-2.4	1.9	1.9	3.1	4.2
Saudi Arabia	7.5	8.6	5.8	3.8	4.0	3.8	3.7	2.9	3.5	3.3
United Arab Emirates	1.7	3.9	4.4	5.0	5.2	0.9	0.9	0.7	1.1	2.4
GCC countries	**5.2**	**7.3**	**5.7**	**4.3**	**4.4**	**2.6**	**2.9**	**2.2**	**2.6**	**3.0**
Egypt[d]	5.2	1.8	2.2	2.1	2.4	11.1	10.5	7.3	9.5	13.5
Iraq	6.9	9.5	9.0	6.1	6.8	2.5	5.6	6.1	1.9	5.1
Jordan	2.3	2.6	2.7	2.8	3.0	5.0	4.4	4.8	5.6	5.0
Lebanon	8.0	2.0	1.2	1.7	2.5	3.6	5.1	6.4	5.7	3.0
Palestine (State of)	9.3	12.2	5.9	1.8	2.6	3.8	2.9	2.7	1.8	2.6
Syrian Arab Republic[e]	3.4	-3.4	-21.8	-22.5	–	4.4	4.8	37.4	87.3	42.7
Mashreq	**5.5**	**2.7**	**0.1**	**-0.6**	**2.9**	**7.3**	**7.7**	**10.9**	**18.1**	**14.2**
Algeria	3.6	2.8	3.3	3.0	3.6	3.9	4.5	8.9	3.3	4.0
Libya	4.3	-61.3	98.2	-3.0	-5.0	2.8	15.5	6.1	2.6	3.5
Morocco	3.6	5.0	2.7	4.6	3.6	1.0	0.9	1.3	1.9	2.4
Tunisia	3.6	-0.2	4.1	2.8	3.0	4.4	3.6	5.6	6.1	5.2
Maghreb	**3.7**	**-9.2**	**21.2**	**2.2**	**1.9**	**3.0**	**5.6**	**6.0**	**3.2**	**3.7**
Comoros	2.2	2.6	3.0	3.4	3.8	3.8	1.8	6.3	1.6	2.0
Djibouti	3.5	4.8	4.7	5.3	5.8	4.0	5.1	3.7	3.5	2.2
Mauritania	5.1	4.0	4.6	6.1	5.9	6.3	5.6	4.9	4.6	5.0
Somalia	–	–	–	–	–	–	–	–	–	–
Sudan	5.8	1.9	1.1	3.2	2.5	13.0	18.1	35.6	37.1	32.0
Yemen	5.7	-12.8	2.0	3.5	2.6	11.1	19.3	10.1	11.0	11.7
Arab LDCs	**5.7**	**-2.8**	**1.6**	**3.4**	**2.7**	**11.9**	**17.8**	**25.4**	**26.6**	**23.7**
Total Arab region[f]	**5.0**	**2.7**	**7.7**	**3.0**	**3.5**	**3.9**	**5.0**	**5.6**	**6.6**	**6.1**

Source: National sources.

[a] With the exception of Algeria, the Comoros, Djibouti, Mauritania, and the Syrian Arab Republic, GDP figures for 2010-2012 are from the Economic and Social Commission for Western Asia (2013) *National Accounts Studies of the Arab Region* (Bulletin No. 33, E/ESCWA/SD/2013/11), which were based on national sources.

[b] March 2014 estimates.

[c] March 2014 forecasts, which do not include the GDP growth projection of the Syrian Arab Republic for lack of sufficient data.

[d] Figures for the GDP growth rate of Egypt are for the country's fiscal year, which ends in June.

[e] Estimated figures for the GDP growth rate of the Syrian Arab Republic are from 2011 to 2013.

[f] Figures for country groups are weighted averages, where weights for each year are based on GDP at 2005 constant prices.

D. Arab Maghreb

19. The Arab Maghreb subregion is estimated to have grown by 2.2 per cent in 2013, after registering a rate of 21.2 per cent in 2012. The average growth of the subregion is influenced by Libya, whose economy experienced another contraction after the recovery in 2012. Libya's oil and gas production and exports collapsed again in the second half of 2013 as political opposition parties occupied the facilities. Several efforts led to temporary resumptions of crude oil production and exports, but the level stood at just above half of the pre-2011 level at best. The recovery in the agricultural sector buoyed the Moroccan economy in 2013. With the relative political stability, Morocco saw constant industrial development. The availability of foreign funds, both for the public and the private sector, supported the expansion of domestic demand. The stable energy export revenues aligned Algeria's economy with the medium-term trend. However, it stayed below its potential because of the lack of economic diversification into the non-energy sector. Tunisia became the first country to have completed its political transition process, but before the completion of the political process, the country's economic activities decelerated in the fourth quarter of 2013. Despite the availability of foreign funds, the low level of foreign direct investment and tourism owing to political uncertainty placed the Tunisian economy under further foreign exchange constraints in 2013.

20. For 2014, the Arab Maghreb subregion is projected to continue to grow by 1.9 per cent. The contraction of the Libyan economy is projected to continue, as its oil-exporting capacity is to be reduced because of political instability. Despite the intensifying destabilized political situation in Libya, the rest of the countries in the Arab Maghreb subregion are expected to stay in a calmer non-economic environment. Political stability in the Arab Maghreb, with the exception of Libya, allows the countries in the subregion to be in a relevant position to attract foreign direct investments, bilateral and multilateral international aid and intraregional cooperation within the Arab region. An increased number of pledges was made among GCC countries to support Morocco and Tunisia. Nevertheless, weak industrial development and hovering unemployment remain structural risk factors in the subregion. In 2014, the forecasted growth rate is 3.6 per cent for Algeria, 3.6 per cent for Morocco and 3.0 per cent for Tunisia. The Libyan economy is projected to be contracted by 5.0 per cent.

E. Arab least developed countries

21. The economies of Arab least developed countries are, on average, estimated to have grown by 3.4 per cent in 2013, following the previous year's growth of 1.6 per cent. The Sudan's struggle in adjusting to stabilization of its domestic economy after the separation of South Sudan continued in 2013. The Sudan remained under severe foreign exchange constraint, but the recovery of both oil and non-oil exports supported the Sudanese economy with a modest acceleration. The agreement with South Sudan, regarding the terms of oil production and transportation, which was reached in 2013, improved the external economic environment despite the deteriorating political situation in South Sudan. In Yemen, despite the fragile security situation, which resulted in frequent attacks on oil pipelines, the recovery in oil export revenues buoyed its economy in terms of GDP growth. Financial supports for Yemen's transition were actively pledged at both the regional and international

levels. The modest growth of domestic demand, however, could only be reached with a rapidly growing level of public debt. Other Arab least developed countries, the Comoros, Djibouti and Mauritania had higher GDP growth in 2013. The political stabilization in Somalia brought more economic activities with a functioning public sector. Anecdotal evidence suggests that the Somali economy was experiencing a rapid expansion with reconstruction activities, though no official data are available to show the exact magnitude.

22. For 2014, the real GDP growth of Arab least developed countries is projected to average 2.7 per cent. As the growth in energy and natural resource exports slows down, growth in Mauritania and Yemen is expected to taper off. The economic prospects of the Comoros and Djibouti remain influenced by those of their neighbouring countries, which are expected to be stable. The expansion of port activities in Djibouti is projected to accelerate the Djibouti economy. The Sudan is expected to record stable growth with a stable level of oil export revenues, but the severe foreign exchange constraint is expected to continue, preventing the country from achieving a higher level of growth. The growth prospects of Arab least developed countries in general remain insufficient for poverty alleviation. In 2014, the forecasted growth rate is 3.8 per cent for the Comoros, 5.8 per cent for Djibouti, 5.9 per cent for Mauritania, 2.5 per cent for the Sudan and 2.6 per cent for Yemen.

F. Price and inflation

23. The average consumer price inflation of the Arab region is estimated to be at 6.6 per cent in 2013, compared to 5.6 per cent in 2012 (see table 2). International commodity prices of energy, metal and food items remained at a higher level, which edged up towards the end of the year. For their limited volatility, international commodity prices did not have a noticeable impact on the domestic price level of the region's economies. Following the previous year's trend, each country's consumer inflation level was determined by country-specific factors. The deflationary pressure on housing-related items in Bahrain, Qatar and the United Arab Emirates since the time of the global financial crisis of 2008-2009 has completely lifted. In turn, the housing-related items of GCC countries, particularly property rent, started becoming the main contributor of inflationary pressure. Nevertheless, the consumer inflation rate of the GCC countries edged up to 2.6 per cent in 2013 and remained the lowest compared to other subregions. A low inflation level was also observed in the Comoros, Iraq, Libya, Morocco and the State of Palestine in 2013. The structural supply bottleneck raised the price level in the rest of the countries in the region. Foreign exchange constraints, among others, continued to affect the Sudan and the Syrian Arab Republic, causing a state of hyperinflation. The level of inflation of Egypt and Yemen remained high in parallel with the growing government debts.

24. The forecasted consumer price inflation rate of the Arab region averages 6.1 per cent in 2014. The impact of international commodity prices is expected to be limited, though a moderate increase in food prices is projected. GCC countries will be under more inflationary pressure from housing-related items. The exceptionally high inflation rates in the Sudan and the Syrian Arab Republic in 2013 are expected to taper off in 2014. However, the seriously binding foreign exchange constraint is anticipated to remain for non-economic reasons, the level of inflation is not projected to decline rapidly in both countries in 2014. Egypt and Yemen are

projected to experience a higher rate of inflation owing to the rapid monetary expansion under a severely binding structural supply constraint. The planned fiscal reforms, if implemented, will influence the price level, particularly in Egypt and Tunisia.

G. Exchange rates

25. The exchange rates of the Arab region showed more stability in 2013, compared to the previous year, with the exception of Egypt, the Sudan, the Syrian Arab Republic and Tunisia. GCC countries, with the exception of Kuwait, have kept the foreign exchange rate regime of the United States dollar peg. Djibouti, Jordan and Lebanon have also maintained their national currencies' pegging to the United States dollar. Kuwait has maintained the pegging of the national currency to the basket of foreign currencies. Central banks of Algeria, the Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime of the foreign exchange rate. The rapid depreciation of the Egyptian pound was halted in June as the value of the currency was stabilized at around EGP 7.0 per United States dollar. The Tunisian dinar gradually depreciated throughout 2013, from TND 1.55 per United States dollar to TND 1.67 per United States dollar. The weakening trend was reversed, however, after the completion of the political transition in the first quarter of 2014, during which the rate recovered to the level of TND 1.58 per United States dollar. For the Sudan and the Syrian Arab Republic, the value of their national currencies continued to slide against the United States dollar until it was stabilized in the fourth quarter of 2013. The official rate of the Sudanese pound was changed to SDG 5.7 per United States dollar from SDG 4.42 per United States dollar in September and the value was further cut to SDG 5.71 per United States dollar in November 2013. The value of the Syrian pound rapidly weakened from SYP 95 per United States dollar in January to SYP 280 per United States dollar in August 2013 in the parallel market. The value of the Syrian national currency recovered, however, and has been stabilized at around SYP 155 per United States dollar in the parallel market from November 2013 to the first quarter of 2014. The fragile balance-of-payments situation is expected to continue in Egypt, the Sudan, the Syrian Arab Republic and Yemen in 2014. The weak external position is expected to remain in other Arab Mashreq and Arab Maghreb countries and in the Arab least developed countries.

IV. Policy developments

26. The region's policymakers needed to balance various policy priorities in 2013. For major energy exporters of GCC countries, the contents of growing fiscal outlays — which continued to emphasize capital spending, education and health sector development — contained the items to be balanced. A growth-supporting monetary policy regime with a historically low interest rate level continued throughout 2013, mirroring the monetary stance of the United States. The Governments of other subregions remained under tighter fiscal and foreign exchange constraints where an expansionary economic policy mix was difficult to be implemented without external financial supports. The fiscal austerity stance has continued in Morocco, Tunisia, the Sudan and Yemen. The improving foreign exchange constraints allowed Egypt and Jordan to take a limited expansionary

policy stance. Lebanon relied on monetary measures intended to stimulate domestic demand.

27. As to monetary policy, GCC countries did not change their easing stance in parallel to United States monetary policy. A series of implicit and explicit announcements of the United States Federal Reserve on the planned normalization of monetary policy during 2013 did not affect the cost of funding in GCC countries significantly. The funding cost in terms of the three-month interbank money market rate in GCC countries remained around 1.0 per cent at a level about 75 basis points higher than the equivalent maturity of the United States dollar London Interbank Offered Rate (LIBOR). The three-month Emirates Interbank Offered Rate (EIBOR) of the United Arab Emirates edged down to 0.77857 per cent at the end of the first quarter of 2014, while the three-month Kuwait Interbank Offered Rate (KIBOR) of Kuwait edged up to 1.1875 per cent. Monetary authorities in GCC countries focus on routine liquidity management as well as on the guidance of commercial banks in their lending portfolios. Monetary policy was further tightened in Tunisia to fight inflationary pressure. The Central Bank of Tunisia raised its main policy interest rate in March and December 2013 to 4.5 per cent. Meanwhile, the improved level of foreign reserves allowed the Central Bank of Egypt and the Central Bank of Jordan to cut their respective policy interest rates. After raising policy interest rates in March 2013, the Egyptian monetary authority cut those rates three times in August, September and December. The Egyptian overnight lending rate came down from 10.75 per cent to 9.25 per cent. The Central Bank of Jordan lowered its policy rates in August and October 2013 and January 2014, by which the rediscount rate came down to 4.25 per cent from the peak of 5.0 per cent. The proportion of foreign assets in the central banks' balance sheet remained low in Egypt, the Sudan and Yemen, which indicated intensifying difficulties that those countries were facing to manage price levels and domestic demands.

28. For the fiscal year 2013/2014, the fiscal stance of GCC countries remained expansionary at various levels. The priority given to infrastructure investments, health, education and social affairs continued to have been emphasized. However, as the stagnation of revenue growth is anticipated in line with the declining oil export revenues, some GCC countries started to take a more conservative fiscal stance in planning to maintain prudence. A contrasting fiscal policy environment remained for the energy-importing countries of the Mashreq and the Maghreb and the Arab least developed countries where the rising government debt level has already resulted in higher interest payments in budget expenditures. A fiscal austerity stance was principally kept in place in the energy-importing countries of those subregions. The main policy item of austerity measures was subsidy reforms. Morocco and the Sudan cut fuel subsidies in 2013. Egypt, Jordan and Tunisia were also in the process of subsidy reforms for the coming fiscal years. Nevertheless, Egypt and Jordan could take additional fiscal measures in 2013 through funding from GCC countries. Jordan increased capital spending in 2013 and Egypt launched two fiscal stimulus packages during its 2013/2014 fiscal year, which also emphasized capital spending. External financial supports became even more crucial for energy-importing countries in the region to fill external and fiscal financing gaps to keep the respective economies afloat.

29. Employment creation continued to be the most important policy agenda in the region. The unemployment rate remained high in the region. For the countries where data are available for the fourth quarter of 2013, Egypt stands at 13.4 per cent,

Jordan at 11.0 per cent, Morocco at 9.[illegible] per cent, Saudi Arabia at 11.5 per cent among Saudi nationals and Tunisia at 15.3 per cent. The labour nationalization policy of GCC countries has long been in operation to create employment opportunities for respective nationals in the private sector. However, the dependency on foreign workers in the private sector had deepened in most GCC countries. The idea of more stringent operation of a labour nationalization policy had been discussed but rarely implemented in the past. In 2013, however, Saudi Arabia shifted to a stricter policy regime in order to promote employment of Saudi nationals. The Government of Saudi Arabia granted an amnesty period for foreign expatriates to rectify their sponsorship status or voluntarily leave the country. During the period until November 2013, a significant number of foreign workers left Saudi Arabia voluntarily. The economic impacts of the new labour policy of Saudi Arabia have yet to be assessed, but this policy change shed light on female employment. In parallel with the exit of illegally-staying foreign workers, Saudi female employment was rigorously promoted. In effect, the foreign workforce was partially replaced by female Saudi workers in the areas of administration, education and retail. The Government's role in employment creation, skill-matching and information-sharing to tackle the unemployment issue remains crucial in the Arab region.

V. Concluding remarks

30. On average, the GDP growth rate of the Arab region is likely to grow marginally in 2014. This is attributable to the combination of the projected marginal decline in energy export revenues and a counterbalancing expansion of the non-oil sector in GCC countries in addition to the continuing economic stagnation in the other subregions. Energy-importing Arab Mashreq and Arab Maghreb countries and the Arab least developed countries remain vulnerable because of their weak external positions. The level of fund inflows remains insufficient to finance trade deficits in most of the countries in those subregions. Private investment flows, both of portfolio investment and foreign direct investment, have already been weakened owing to geopolitical factors. The expected weak recovery of Europe and the hike in the cost of United States dollar funding due to the normalization of the monetary policy of the United States are not encouraging. The ongoing polarization within Arab economies has become more apparent in terms of funding capability to fill the financing gaps.

31. Financing gap issues had been masked under the surface for many years in the Arab region. Even at the time of the global financial crisis of 2008, Arab economies showed their resilience. The Governments and monetary authorities in the Arab region could successfully manage their policies to weather the significant international liquidity squeeze at that time. Financing gap questions have only recently surfaced. Egypt, Jordan, the Syrian Arab Republic, Tunisia and Yemen suddenly experienced the depletion of foreign reserves as well as mounting fiscal deficits since 2011. The existence of financing gaps was increasingly recognized, as only large financial supports from GCC countries could stabilize the macroeconomic situation of Egypt, Jordan, Tunisia and Yemen by filling growing financing gaps. The market mechanism of channelling spillover flows from GCC countries to other subregions has stalled for those countries in the process of sociopolitical transition. The failing market mechanism and the emergence of a

financing gap could be attributed to economic risks associated with political instability and social unrest, which are often part of sociopolitical transition processes. However, considering economic, social and political events that led to the Arab transition, the past financing strategy for development may be one of the factors that gave rise to the sociopolitical transition. Designing a new financing strategy in the context of the ongoing Arab transition is crucial to resolve financing gap issues and to plan sustainable socioeconomic development of the post-transition era.